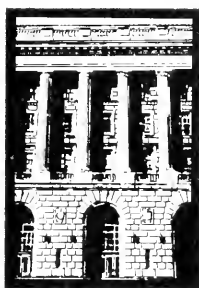


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*History
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STUDIES

Published as part of a continuing series of historical studies to preserve and disseminate the history of the Internal Revenue Service and tax administration in the United States.

Department of the Treasury
Internal Revenue Service

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Foreword



The San Francisco District of the Internal Revenue Service has come a long way since its inception in 1862 as one of five collection districts established by President Lincoln in the young state of California. Over the years the District grew, at one point comprising most of California plus Nevada. Though its boundaries have changed many times, one thing that has not changed has been the District's commitment to the critically important job of tax administration.

Following the 125th anniversary of the Internal Revenue Service in 1987, the San Francisco District decided to retrace our history to document the path of growth and development. What was uncovered was a story of striving and achievement built on a mixed foundation:

some instances of personal failings and corruption under the old political patronage system and many examples of individual and District-wide successes as part of the career civil service.

Today, the civil service professionals who are the heart of the Internal Revenue Service and the San Francisco District can be proud to be part of a modern agency that plays an essential role in American government. The progress we have made in doing our difficult job better is a direct result of the contributions made by every individual employee, in every job, no matter how big or how small.

I hope you will enjoy reading about the history of the San Francisco District and the story of the Internal Revenue Service.

A handwritten signature in cursive script that reads "Frank Miceli".

Frank Miceli
Director,
San Francisco District
Internal Revenue Service

Preface

This history of the San Francisco District is the result of a research project initiated in the District and completed with the assistance of the National Office History and Archival Services Program. The primary research and writing was conducted by Ruth Sherman, on temporary assignment as historian to prepare the history of the District.

Additional research and editing was conducted by Beverly Weber of the San Francisco District. The final document was completed by Shelley Davis, the IRS historian in Washington, D.C.

The project included research at Internal Revenue Service offices in California and the National Office; at the National Archives Pacific Sierra Region in San Bruno, California and in Washington, D.C.; and at libraries and other significant historical facilities throughout Northern California. A series of interviews with former and long-time employees of the San Francisco District also helped bring to life many of the District's more recent developments.

Through this project the San Francisco District has retrieved and recorded crucial links to the past that shaped the District we know today. Concurrently, it has also documented a unique story of individuals, innovations, and change that contributed greatly to the development and growth of the Internal Revenue Service.

This history is part of an ongoing series of historical studies prepared under the direction of the IRS

National Office History and Archival Services Program with the primary goal of disseminating knowledge about the history of taxation in the United States and the history of the IRS as a vital Federal institution.

The reader of this history will gain insight into IRS operations on a local level as well as an appreciation for the significant impact of the evolution of tax policy on all American's lives.

Acknowledgments

The preparation of a history is always a complex undertaking, relying on a mixture of archival sources and human recollection of events to create the final product. This history is the product of not one individual but several, all of whom worked with the goal of providing the San Francisco District of the Internal Revenue Service with a record of its past that would serve to educate, illuminate, and inspire.

This project could not have been completed without the inspiration and guidance of District Director Frank Miceli, who came up with the original idea to prepare a history. His firm belief that the employees of the San Francisco District would benefit from an awareness of their heritage caused him to stick with the project through many twists and turns.

Special thanks are also due to the following individuals who made major contributions to the project: Jim Casimir, IRS; Mike Griffith, U.S. District Court, Northern District of California; Ray Harless; IRS, Carol Leonti; IRS, Waverly B. Lowell, National Archives, Pacific Sierra Region; John Moore, IRS; Richard Nossen, IRS; Emily Maraccini Ottoboni, IRS; Georgia Parrott, IRS; Frances Regan, IRS; Victor B. Ress, Consulting Systems Engineer; Phil Smith, IRS; Jon Swan, IRS; Jack Wilks, IRS; and Larry Wright, IRS.

In addition, much appreciation goes to the following individuals for important contributions to this project: Pat Akre, San Francisco Public Library; Willa Baum, Bancroft Library; Bob Erwin, Hastings College of the Law; Gladys Hansen, San Francisco Public

Library; Lynn Lundstrom, U.S. District Court Library; Loren Pignolo, Photographic Consultant; Martha Seeman, IRS; and William Sherman, National Archives.

Finally, thanks go to all current and former employees of the San Francisco District who contributed in many ways to the successful completion of this project. Without the support and contributions of the following individuals this project would not have been possible: Terry Antell, Jo Bagdasarian, Lila Bardellini-Gaetjens, Joe Barr, Joyce Beasley, Joe Benton, Ann Brown, Brenda Brown, Frank Busalacchi, Peter Chin, Grace Cinti, Deanna Cooke, Peter Coons, Duane Coviello, Jim Davis, Clyde Diehl, Elaine Dixon, Maria Dupras, Al Fink, Chuck Gilbert, Dave Gow, Virginia Haas, Pearlle Hampton, Jane Hansen, Seran Homrig, Pete Horeni, Johnell Hunter, Maria Inschape, Les Jacobs, Billy Johnson, Izzy Kaplan, Mary Frances Kirwin, Carrie Lawrence, Tom Liu, Jim McPartland, Ray Morris, Nick Nichols, Barbara Nunn, Maria Teresa Patino, Dave Robins, Ed Sackett, Mike Sassi, Kim Smathers, Marilyn Soulsburg, Joe Stack, Bertha Thompson, Vangie Wallace, Vince Weltz, Roger Whiles, Tom Wilson, Aline Zancanaro, Ron Zuckerman.

As always, any errors of fact or interpretation rest with the creators of this document.

Shelley Davis
Ruth Sherman
Beverly Weber

Executive Mansion,

30th July 1862

In accordance with the requirements of The Second Section of the Act entitled "An Act to provide Internal Revenue to support the Government and to lay interest on the Public Debt," approved July 1, 1862, I hereby constitute,

The State of Oregon to be one Collection District,

The Territory of Washington to be one Collection District.

And I hereby divide the State of California into five Districts, to be constituted as follows:

The First District will consist of the Counties of San Francisco and San Mateo;

The Second District will consist of the Counties of Alameda, Santa Clara, Santa Cruz, Monterey, San Louis Obispo, Santa Barbara, Los Angeles, San Diego and San Bernardino,

The Third District will consist of the Counties of Contra Costa, San Joaquin, Calaveras, Stanislaus, Tuolumne, Merced, Mariposa, Fresno, Tulare, Buena Vista, and Mono;

The Fourth District will consist of the Counties of Sacramento, Yuba, El Dorado, Placer, Nevada, Sierra, Butte, Plumas, Sutter, Yuba, Colusa, Yuba, Shasta and Siskiyou;

The Fifth District will consist of the Counties of Yolo, Solano, Yuba, Yuba, Sonoma, Mendocino, Humboldt, Klamath, Del Norte and Lake, and Trinity.

Abraham Lincoln

The Beginning: A Wartime Birth

Before the gold rush years of the 1850s, California was a distant, sparsely populated, relatively unimportant Mexican province to most Americans. Despite this relative obscurity, the region around San Francisco bay was already a regular port of call for whalers, hunters, and explorers.

With the outbreak of war between the United States and Mexico in 1846, Americans began to move toward California in greater numbers. Still, by 1848, the population of the San Francisco area remained less than 900.

On February 2, 1848, the war with Mexico came to an end and the United States acquired the California territory with the signing of the treaty of Guadalupe Hidalgo. Signers of the treaty on both sides were unaware that gold had been discovered in the California territory just weeks before.

Gold fever arrived in full force in 1848, rapidly transforming California into a magnet for enterprising individuals. By 1850, San Francisco's population had surged to 56,000 and ships from around the world crowded the harbor. Years after gold fever cooled, the discovery of silver in Nevada kept the boom going through the remaining years of the nineteenth century.

Even with the distraction of great wealth growing by leaps and bounds, the California territory was not immune from currents sweeping through the nation in mid-century. The acquisition of vast new land areas after the war with Mexico, including the California territory, Texas, present day Arizona, Nevada, Utah, and parts of New Mexico, Colorado, and Wyoming, raised the question of whether or not slavery would be allowed to exist in these new areas.

California's decision to outlaw slavery provided the impetus for the Compromise of 1850, an attempt to prevent a sectional split over the question of slavery in the territories. After much debate over the question of whether to admit newly acquired lands as slave or free states, Congress developed a complex settlement by agreeing to admit California as a free state and dividing the rest of the Southwest into two territories, eventually to be admitted as slave or free states based upon a vote of their residents.

Within ten years, continuing tensions over states rights and slavery threatened to tear the young country apart. In 1860, Abraham Lincoln was elected President in a purely sectional vote, receiving no support from the slave states. That same year, South Carolina became the first state to secede from the Union, asserting the doctrine of states rights and condemning Lincoln's attack on slavery.

On July 30, 1862, President Lincoln signed an executive order creating five collection districts in California.



San Francisco was a growing business center in the early 1860s as shown in this photo of the view from Pine and Dupont Streets.

People were angry, families were divided, and the country was on the verge of a major war. By 1861 President Lincoln knew there was no way to prevent the looming tragedy. Ten more states had seceded from the Union and formed the Confederate States of America in Montgomery, Alabama. In the period of a few months, Confederate troops fired on Fort Sumter, South Carolina, and defeated Union troops at the First Battle of Bull Run in Manassas, Virginia.

President Lincoln knew that wars were expensive and the government needed money. Since the earliest years of the nation, the United States had been able to finance its needs through collecting customs and tariffs on foreign goods entering the country and excise taxes on products such as tobacco and alcohol. As the war accelerated, it became apparent that additional revenues

would be required to finance the conflict.

By the spring of 1862, the public debt was growing at the rate of two million dollars each day. Although Congress passed a law designed to raise money to support the war effort in 1861, the costs of the Civil War quickly outpaced incoming revenue. Although this bill contained a rather radical provision, enacting the first tax on personal incomes, the tax was never collected because the nation lacked an organizational unit to implement this new law.

The growing need for revenues prompted Congress to take more definitive action the following year by once again enacting an income tax for the young nation and establishing an organization to develop procedures for and support the collection of the tax. Thus, the system of taxation of personal incomes that eventually became the cornerstone

of the Internal Revenue Service was born a child of war.

On July 1, 1862, the Office of the Commissioner of Internal Revenue was established within the Department of the Treasury in Washington, D.C., to implement and enforce "an Act to provide Internal Revenue to support the government and to pay Interest on the Public Debt." Under the direction of the Secretary of the Treasury, the Commissioner was given authority to assess, levy, and collect internal taxes, along with the right to enforce the tax laws by seizure and prosecution. Named as the first Commissioner was Massachusetts attorney and former governor George S. Boutwell.

Upon arriving in Washington in July 1862, Boutwell immediately set about creating an organizational and administrative structure for what became known as the Bureau of Internal Revenue. It would take a tremendous effort to establish this new organization, yet in less than a year Boutwell succeeded in creating the basic framework for the tax collection agency that still exists today. With a small staff tucked away in a corner of the Treasury Department building, Boutwell wrote manuals and regulations, contracted for the printing of revenue stamps, and organized a formidable force of tax personnel.

Congress had made this first income tax progressive, imposing a three percent tax on incomes between \$600 and \$10,000 and a five percent tax on incomes over \$10,000. Because the rates were low and affected a very small segment of the population, there was little popular outcry against this new form of taxation. For perspective, the average annual male income during this

period was estimated at \$300. Thus, very few citizens faced the prospect of paying the income tax.

Still, there was much work to be done to establish methods and procedures to collect the tax that was due. According to a report by Commissioner Boutwell, each state "not in actual rebellion" would have several collection districts, generally corresponding to the number of representatives to which they were entitled in the thirty-eighth Congress.

The Revenue Act of 1862 authorized the President to divide the country into collection districts and appoint, with the consent of the Senate, an assessor and collector for each district. Under these provisions, a total of 183 collection districts would be established, each with its own collector, assessor, deputy collectors, and assistant assessors.

The new tax collection procedures required individuals and busi-

George S. Boutwell became the first Commissioner of Internal Revenue in July 1862.



SCHEDULES of Articles and Occupations subject to Tax

The following schedules of articles and occupations on which taxes are levied by the act of Congress, approved July 1, 1862, have been prepared as aids to assessors. In all cases of doubt, assessors will refer to the law, which contains provisions and explanations that are omitted in these schedules.

Class A

Articles upon which an ad-valorem duty is levied, and the rate thereof.

[illegible][illegible]

CLASH R.

Licenses, and the rate thereof.

Appliances, when the annual gross receipts or sales exceed \$1,000

Automobiles

Boatmen

Bullfeed rooms, license for each table

Booth displays, license for each alley

Brewers

when manufacturing less than 500 barrels per year

Brokers

commercial

land warrant

Cattle handlers

Clerks

Clock repairs

Coal or distillate

Confessionaries, when the annual gross receipts exceed \$1,000

Dentists

Distillers of spirituous liquor

making less than 500 barrels per year

of maple and pearlash, making less than 15 barrels per year

for a greater quantity, same as other distillers

Eating places, when the annual gross receipts amount to \$1,000

3 per cent	<i>Exhibitions</i> —The proprietors or managers of all public exhibitions or shows for money, not enumerated in the preceding schedule, shall pay such license
3 per cent	<i>Horse drives</i> —For each horse
3 per cent	<i>Horse drives</i> , first class, (see section 64)
3 per cent	second class, (see section 64)
3 per cent	third class, (see section 64)
3 per cent	fourth class, (see section 64)
3 per cent	fifth class, (see section 64)
3 per cent	sixth class, (see section 64)
3 per cent	seventh class, (see section 64)
3 per cent	eight class, (see section 64)
3 per cent	Stables and vanses upon waters of the United States, on board of which passengers or freight are transported without any license or lodging are required to take out a license of the following kind
3 per cent	<i>Jugglers</i> (see section 64)
3 per cent	<i>Living wild beasts</i>
3 per cent	<i>Managers</i> when the annual gross receipts exceed the following
1) 1 per cent	<i>Potent men</i>
3 per cent	<i>Pondicks</i> , who in travelling or more than two horses, when travelling with two horses, 21 class
3 per cent	when travelling with one horse, 22 class
3 per cent	when travelling with two or more class
3 per cent	who sell or offer to sell wild game, foreign animals, or by one or more persons, or by one or more persons at one time to the same person
3 per cent	who peddle jewelry
3 per cent	<i>Photographers</i> , when the receipts exceed \$100 per annum
5 per cent	when the receipts are over \$200 and under \$500
3 per cent	when the receipts are over \$1,000 per annum
3 per cent	<i>Pyromans</i>
3 per cent	<i>Ringers</i> for the purpose to rectify any quantity of spirituous liquors, not exceeding 100 barrels, of not more than 60 gallons each
3 per cent	for each additional 50 barrels, or any

Class C.

Enumerated articles and the law listed therein.

50	00	lb. per barrel of 31 gallons (fractional parts of a barrel
10	00	to pay proportionately)
50	00	<i>Beer</i> , per barrel of 31 gallons, (fractional parts of a barrel
10	00	to pay proportionately)
50	00	<i>Bifidid</i> kept for use, each
10	00	<i>Burpee</i> sulphate of, per 100 pounds
50	00	<i>Carpene</i> , including benzene used therewith, valued at
10	00	\$25 or more, when down to one home
50	00	valued at one home; when sold at
10	00	\$75 and not over \$200, including harness
50	00	valued above \$200 and not exceeding \$600
10	00	valued above \$600
50	00	<i>Cattle</i> , grown, and all milsteers of same, per pound
10	00	<i>Cattle</i> , horned, exceeding 18 months old, slaughtered for
50	00	meat, per head
10	00	under 18 months old, slaughtered for
50	00	meat, per head

This list of articles subject to taxation under the 1862 revenue law was provided to assessors throughout the country to aid in collecting the taxes due.

nesses subject to the income tax to submit a list showing the amount of their annual income, articles subject to a special tax or duty, and the quantity of goods made or sold that was taxable under the law. It was the assessor's job to prepare assessment lists for use by the collector in obtaining payment of taxes.

The Early Years

In May 1861, the California legislature voted to remain in the Union. A great deal of turmoil and debate preceded this decision and it was reported that the largest area of public demonstrations and gatherings of citizens concerned about the impending tragedy was centered in that part of San Francisco later known as Union Square.

To support the collection of taxes in California, President Lincoln issued an Executive Order creating five collection districts in the state on July 25, 1862. These were set up as follows:

The First District consisted of the counties of San Francisco and San Mateo; the Second District included the counties of Alameda, Santa Clara, Santa Cruz, Monterey, San Louis Obispo, Santa Barbara, Los Angeles, San Diego, and San Bernadino; the Third District covered the counties of Contra Costa, San Joaquin, Calaveras, Stanislaus, Tuolumne, Merced, Mariposa, Fresno, Tulare, Buena Vista, and Mono; the Fourth District consisted of the counties of Sacramento, Amador, El Dorado, Placer, Nevada, Sierra, Butte, Plumas, Sutter, Yerba, Colusa, Tehama, Shasta and Siskiyou; and the Fifth District covered the counties of Yolo, Solano, Napa, Marin, Sonoma, Mendocino, Humboldt, Klamath, Del Norte, Lake and Trinity.

The First District, based in San Francisco, immediately began to get organized. Despite the trauma of the Civil War on the opposite side of the country, California's growth contin-

ued unabated in the early 1860s.

The promise of riches in gold or silver was still a lure, and people arrived from all over the world to seek their fortunes and start a new life. In 1860, the population of California neared 400,000 and would more than triple to over 1.2 million by the end of the century.

San Francisco was also becoming a major center for commerce, shipping, and agriculture. The distance from the war and the demands of a growing business center created a situation perfect for speculators to vastly increase their riches.

Improving transportation routes to California was one of the major ways in which enterprising men multiplied their wealth during these years. With the help of government subsidies and 15,000 laborers brought from China, the Central Pacific Railroad expanded eastward across the Sierras towards a point in Utah where it would eventually unite with the Union Pacific railroad.

Once the five California collection districts were created, the President and Commissioner Boutwell faced the task of selecting men to serve as collectors in each area. From this period through the years following World War II, the position of Collector of Internal Revenue and some subordinate positions were political appointments in all revenue districts.

Because these were considered plum jobs, President Lincoln received dozens of letters and petitions from politicians and business leaders endorsing favored candi-



Despite their distance from the growing conflict, people in San Francisco gathered for a rally at Post and Market Streets to support the preservation of the Union on May 11, 1861.

dates. Each individual put forth for consideration was described in glowing terms as "honest," "faithful," "upstanding," and "hardworking." But in the final analysis, the most important attribute that made candidates eligible for the job was that they be members of President



Lincoln's political party, the Republicans.

Out of this clamoring, petitioning crowd in California came William Y. Patch, a man of reputed integrity, who claimed he was ready and able to serve the people of California by getting them to pay their taxes.

Patch had already served in the elected position of Tax Collector for the San Francisco City and County People's Reform Party and was a friend of influential California Senators Milton Latham and James McDougall. As a result, before the end of 1862, Patch became the first

Collector of California's First District in San Francisco.

The offices for the Collector were set up in a building on the northwest corner of Battery and Commercial Streets. In addition to Collector Patch, Deputy Collectors Etting Mickle, E.H. Doty, Howard P. Witbeck, and William A. Clark, Inspector of Spirits & Tobacco J.S. Kennedy, Stamp Clerk George Patch, and janitor Edward H. Sears comprised the staff of the First District. Located at the same address was the Assessor's Office, staffed by Assessor Caleb T. Fay and Deputy Assessor A. S. Edwards.

Shortly after assuming his new position in Washington, D.C., Commissioner Boutwell foresaw problems in attracting and keeping top people to serve as collectors and assessors, especially in more costly areas of the country like California. Assessors were paid a set salary while a collector's pay was based upon the amount of tax revenues he was able to collect in a given period. Although the pay was considered more than adequate in some parts of the country, areas like San Francisco were more expensive to live in and thus, problems of retention of highly qualified personnel arose even in the nineteenth century.

In his first report to Secretary of the Treasury Salmon P. Chase, Boutwell suggested, "that the Secretary of the Treasury should be authorized to [allow] additional compensation to assessors in portions of the country where the expenses of living are larger"

Boutwell continued to press his point in a letter to the Secretary dated January 13, 1863, "It is of importance to the government that the assessor should be a man of intelligent business capability and

unflinching integrity. The compensation provided by law is not adequate for the services of men who possess these qualifications." Despite Boutwell's pleas, no action was taken and the debate over federal pay continues to this day.

To further bolster the organization established to collect the new wartime taxes, Congress authorized creation of a position for a Deputy Commissioner of the Revenue in Washington, D.C., along with a provision to hire three revenue agents for the specific purpose of detecting, preventing, and prosecuting fraud. This small group of agents represented the beginning of today's Criminal Investigation and Internal Security force. Eventually, each collection district was authorized to hire its own investigative personnel.

In California, Collector Patch was busily engaged in collecting excise, income, and other taxes. He was also responsible for the sale of revenue stamps to be placed on articles subject to special taxes such as tobacco products and legal documents. The tax regulations covered a wide variety of items, from lottery tickets and playing cards to perfumes and cosmetics.

Although the income tax was the newest and perhaps the most daring of the Civil War taxes, it brought in relatively little revenue. By the end of August 1863, total national revenue collections from internal taxes amounted to over \$47 million, with income taxes accounting for only \$455,742 of that total.

By February 1865, William Patch had left his position as Collector for the First District in San Francisco, and politicians were campaigning for another "able" candidate, Franklin (Frank) Soulé. Soulé was an ambitious man who won speedy confir-

mation to the Collector's post for the First District.

Like many of his contemporaries, Soulé arrived in San Francisco from Maine in 1849 to make his fortune. Trained as a newspaperman, Soulé first tried his hand at mining. After a year, he gave it up to return to journalism, becoming editor of the *Alta California*. He became editor of the *San Francisco Chronicle* by the mid-1850s, and edited the *San Francisco Times* and *The Call* in the 1860s. Soulé was a member of the Society of California Pioneers and an editor of *The Annals of San Francisco*, a definitive reference book on the city.

By the mid-1860s, San Francisco was still growing rapidly. The Comstock Lode discoveries of silver and gold in Mount Davidson and Virginia City, Nevada, brought additional prosperity to the region. San Francisco had quickly become the banking source for many far flung mining operations, and began to be known as "The Silver City."

After years of death and destruction, the Civil War finally ended at Appomattox Court House on April 9, 1865, when General Robert E. Lee surrendered to General Ulysses S. Grant. The wounds of war had not begun to heal when President Lincoln was assassinated less than a week later. The country now had to take the time to heal itself and its people.

Meanwhile, a Special Revenue Commission appointed by President Lincoln in the midst of the war to review the new tax collection system published its findings. The Commission noted that a lack of authority and inadequate pay plagued collectors' efforts to enforce the tax laws. It advised repealing some levies, while retaining the



Franklin Soulé served as Collector of California's First District from 1866 to 1869.

income tax. Finally, the report criticized some political appointees who had few qualifications and no experience to run a tax operation.

Despite the report, major changes were not made in the system until 1872, when Internal Revenue Commissioner John W. Douglass streamlined the operation and cut down on personnel. Citing duplication of responsibilities, he eliminated the posts of assessors and assistant assessors, splitting their duties between collectors in the field and the Commissioner's Office in Washington, D.C.

Still, the political patronage system continued as strong as ever and eventually led to a strange and uncomfortable situation in the First District. After a successful stint of nearly four years in the Collector's job, Soulé submitted his resignation which was to take effect upon the appointment of a new collector. His intended successor was a popular young military man, Colonel James Coey, who had served as a soldier in



Colonel James Coey is the man in uniform in this 1877 photo of the San Francisco Committee of Safety. Coey served as First District Collector for one day in 1869.

the Army of the Potomac, rising from First Lieutenant to Colonel.

Upon the recommendation of his associates in the Senate, President Andrew Johnson nominated Colonel Coey as Collector in June 1868, six months before Frank Soulé submitted his resignation letter. The nomination was sent to the Senate for confirmation, which came a week later.

The *San Francisco Bulletin* confirmed the appointment, reporting, "Colonel James Coey, the nominee, was one of the delegates to the Chicago Convention, and he will not be rejected on political grounds....His fitness for the responsible position of Collector of Internal Revenue can only be determined by his business qualifications, which are said to be of a high order."

However, the politics of the day

proved not to be so clear-cut. After receiving notification of Coey's confirmation as Collector, President Johnson refused to go along with the appointment despite the fact that he had personally nominated him, claiming that he had been deceived concerning Coey's political status.

As his term ended on a sour note, having been impeached by the House of Representatives but acquitted by the Senate, President Johnson relented at the last moment and gave Coey his commission as Collector of the First District in San Francisco. Despite this apparent resolution to the conflict, incoming President Ulysses S. Grant yanked Colonel Coey from the post after he served only one day. Taking advantage of the political power associated with appoint-

ing Collectors of the revue, Grant intended to put his own man in this job.

Grant's selection was Jarad O. Rawlins, a miner and teamster who lived in Tuolumne County. Rawlins was denounced by some opponents who accused him of being "a bitter Copperhead" and "...an *uncompromising ultra democrat of the chivalry wing, and a most boisterous and bitter opponent of the War for the Union*. He was not only known as a democrat but a violent Secessionist, justifying the South in seceding, and always sympathizing with the rebels in every battle with the Federal troops....."

Despite these charges, Rawlins became the fourth Collector of the First District in San Francisco. Coincidentally, Rawlin's brother John was serving as Secretary of War in the Grant administration.

Unfortunately, Rawlins did not last long in the post. He assumed his duties in the Collector's Office at 422 California Street in April 1869 and died in office only eight months later, on December 8.

During the search for a replacement for Rawlins, Deputy Collector Howard Witbeck served as Acting Collector for several months. In this capacity, he presided over the move of the Collector's Office to new quarters in the same block, at 415 California Street.

A new Collector, George Oulton, was appointed in May 1870. Oulton had been a state senator for two years and state comptroller for six years. The fact that he was also, as California Senator A.A. Sargent remarked, "a sound Republican," made him the perfect man for the job.

Meanwhile, the times were rapidly changing. The linking of the East and West in 1869 by joining the

Central Pacific and Union Pacific Railroads in Promontory, Utah, spurred even more adventurous individuals to try their luck in the West. People continued to pour into San Francisco. By 1870, the city's population had surged to over 150,000.

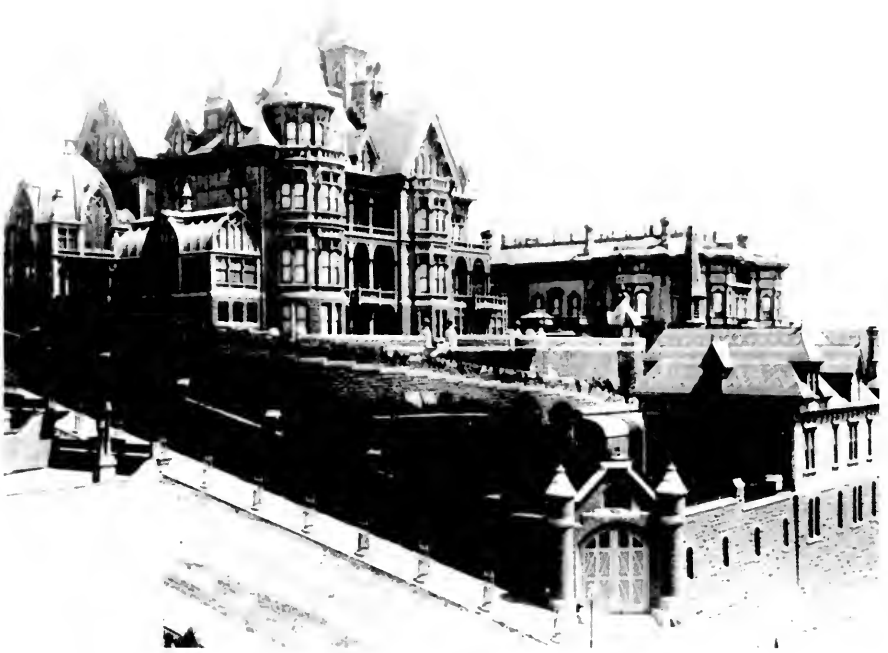
The advent of the cable car in San Francisco in 1870 allowed easier access to the hills that characterized the area. Railroad barons and other wealthy businessmen built mansions on Nob Hill that served as striking reminders of the new wealth of the city. Lavish hotels, such as the legendary Palace Hotel, catered to the city's newly-rich citizens.

As part of the post-Civil War adjustment process, legislators in Washington began to modify the revenue systems set up to finance the war. In 1870, the government reduced the income tax and repealed the inheritance tax. Two years later, Congress totally eliminated the income tax. By 1877 most other levies were dropped or drastically reduced.

Though there no longer was an income tax to administer, other tax matters, such as the collection of excise taxes and sale of revenue stamps kept the Bureau of Internal Revenue in business. From 1868 until 1913, nearly 90 percent of all internal revenue collected in the United States came from excise taxes on distilled spirits, tobacco and fermented liquors.

In April 1871, Luther Cary succeeded George Oulton as Collector of the First District, which had moved again, this time to the U.S. Court Building. A physician from San Jose, Cary was originally from Wisconsin and had served as a surgeon during the Civil War.

Cary assumed the Collector's



Nob Hill became the home of many of San Francisco's wealthy citizens in the 1880s.

duties a month after President Grant issued an executive order combining the First and Second California Collection Districts into a single organization to be known as the First District. This was the first of several moves which led to the growth of the San Francisco District into a collection area of tremendous geographic size by the early twentieth century.

In 1871, the First District consisted of the counties of San Francisco, San Mateo, Alameda, Santa Clara, Santa Cruz, Monterey, San Louis Obispo, Santa Barbara, Los Angeles, San Diego, and San Bernadino. In March 1873, another Executive Order dissolved California's Third Collection District and added the counties of Contra Costa, San Joaquin, Calaveras, Stanislaus, Tuolumne, Merced, Mariposa, Fresno, Tulare,

Buena Vista, and Mono to the First District.

By 1873, uncontrolled credit, inflation, speculation and over-expansion dominated the economic climate of the country. The Populist Party, formed in response to these conditions, began to advocate using the tax system not only to produce revenues but to help in regulating the economy.

The Name of the Game

With the increase in the First District's territory in 1873 came another new Collector. Named to the post was John Sedgwick, a former sheriff of Tuolumne county who had been Collector of the Third District in Stockton since 1862. Like those who preceded him, Sedgwick's appointment was steeped in party politics.

The *San Francisco Alta* commented, "As a politician he is emphatically a 'wrestler,' bold and straightforward, never afraid to show his hand, and ever ready to exhibit and defend his colors....The Internal Revenue law is now but a shadow of what it was formerly, yet the three former districts consolidated will give [Sedgwick] sufficient employment to keep him out of mischief."

During this period, problems with notorious groups who ran illegal liquor operations, known as "whiskey rings", became pronounced in the San Francisco area. These groups developed close ties to powerful politicians and exerted heavy influence during the late nineteenth century. Though Sedgwick denied any involvement with these gangs, seemingly unfounded accusations ultimately forced his resignation.

The seeds of the rumors may have been planted by the mere mention of the whiskey rings in an article with Sedgwick's name in the *San Francisco Post* on March 10, 1873, stating that the appointment of Sedgwick as "Collector of the California Internal Revenue District, must be acknowledged an excellent

one. Mr. Sedgwick is familiar with the duties of the position, and has never been identified with any of the whiskey or other rings formed for the purpose of defrauding the Government of its revenue."

Another paper called the appointment of Sedgwick a good move, but went on to state, "...but as the new Collector is not a member of the 'Happy Family,' it is probable the Ring would prefer some other man."

By 1876 Attorney General Alphonse Taft was looking into charges against Sedgwick brought by the U.S. Attorney for the District of California. By this time the whiskey rings were the subject of major investigations, with the "Pacific Ring" leading the pack. Instigating the charges against Sedgwick was Lucien Hawley, an employee of the Bureau of Internal Revenue who had been transferred to California from the East Coast and appeared to hate San Francisco and Sedgwick equally. Hawley accused Sedgwick of complicity with the criminal whiskey rings.

Sedgwick documented Hawley's negative attitude in a letter to him in March 1875, recounting an earlier conversation between the two men that, "...astonished me greatly....You informed me that you had determined to leave this Coast in April and upon my expressing surprise and enquiring the cause of your sudden departure you said you did not like living here, that you did not like the climate or the people, that they were not honest—and to show their dishonesty you instanced the fact that the day before you had been



Chinese storekeepers stand in the doorway of their shop in San Francisco in the mid-1880s.

charged 50 cents to repair your umbrella, where in New York the charge would not have been more than 10 cents. And you said that was a sample of the impositions practiced by the people of San Francisco."

Though Sedgwick was ultimately cleared of any improprieties, he offered his resignation on July 14, 1876 and by December he was gone. California Senator A.A. Sargent pressed for the appointment of William Higby, a respected politician and friend, who had served six years in the House of Representatives, as the next First District Collector. Higby was duly commissioned First District Collector in 1877.

During this period, the population and economy of the San Francisco area began to change. Through the 1860s and 1870s, thousands of Chinese workers arrived in California to work in the mines and build the railroads. Putting an abrupt end to the influx of Chinese laborers, an

1882 law banned Chinese immigration for the next ten years.

A few years earlier, the San Francisco region began to fall into a depression. Crops failed and mines began to peter out. Railroad shipping fell off and widespread unemployment characterized the times.

In a two year period, Collector Higby had made some enemies and grown old in office. In July 1879, the Republican nominee for Governor, George C. Perkins, asked Secretary of the Treasury John Sherman to remove Higby from office, saying, "...seizures have been made and prosecutions instituted for trifling offenses to such an extent as to arouse public indignation. Technical violations of the law have been followed by demands from the Revenue Office for excessive penalties in the way of compromise. [I request a change of collector] ... in the interest of a just administration of the law and for the benefit of the

Republican Party whose success at the coming election is very much jeopardized by the actions of this Federal officer."

In 1880, the Commissioner of Internal Revenue in Washington, D.C., Green B. Raum, concurred with Perkins request by stating, "Mr. William Higby...is an honest, well meaning man but his intellectual vigor is so impaired that he is entirely incompetent for a position of such responsibility. In my opinion the interests of the public service will be promoted by appointing a competent and efficient man to fill the place."

As a result, Higby was suspended from office on June 18, 1880. Appointed to replace him in 1881 was Chancellor Hartson, a Napa County judge and assembly member, who had served in the state legislature and had run as a Republican candidate for Congress. As a politician, former bank president, and lawyer, Hartson had many powerful friends. He had no major competition for the Collector's job, which he held until 1885.

In 1880, the Collector's Office moved to the new four-story U.S. Appraiser's Building, bounded by Washington, Sansome, Jackson, and Post Office Place. The Collector's Office was on the first floor, along with the Superintending Surgeon of the Marine Hospital, Special Agents of the Treasury Department, the Naval Pay Office, the Secret Service Division, the U.S. Revenue Marine, and Steamboat Inspectors.

The rest of the building housed other government operations, including the Appraiser's Department, the Coast and Geodetic Survey, the United States Circuit and District Courts, the United States Marshal, District Attorney, and the Law Library.

Change was sweeping through California. Telephones arrived in San Francisco in 1878 and in 1879 a new state constitution was written in hopes of easing difficulties with labor conditions, state taxes, monopolies, railroads, and Chinese employment problems. There were rampant crime problems in San Francisco's Chinatown and the Barbary Coast, where "opium dens" and prostitution flourished.

The First District Collector's office expanded to keep pace with the changes. By the end of fiscal year 1882, the District employed 65 personnel. To collect taxes more efficiently in California, the President issued several executive orders. In 1875 an Executive Order combined the Fourth and Fifth Collection Districts, leaving only two collection districts in the state, the First and the Fourth.

Another executive order, in 1884, redefined the Fourth District to include the counties of Alpine, Amador, Butte, Colusa, El Dorado, Lassen, Nevada, Placer, Plumas, Sacramento, Shasta, Sierra, Siskiyou, Sutter, Tehama, Yuba, Del Norte, Humboldt, Lake, Marin, Mendocino, Modoc, Napa, Solano, Sonoma, Trinity and Yolo. The remainder of the state was left to the First District in San Francisco.

By 1885, legislator and local tax collector from Los Angeles Asa Ellis replaced Hartson as Collector. Ellis presided over the extensive First District for five years, until the arrival of a new administration in Washington with the election of Benjamin Harrison as President.

In October 1889, a mini-scandal arose over the qualifications of William H. Sears, whose name was put forward to become the eleventh Collector of the First District. Sears

had come to California in 1851 and worked in the mines before becoming an attorney and Nevada City assemblyman. In 1880 Sears moved to San Francisco and was elected to the State Senate.

Near the end of President Chester A. Arthur's administration, Sears was appointed Collector of Customs for San Francisco, serving from 1884 to 1885 in this position. In San Francisco, it was the responsibility of the Collector of Customs to register Chinese laborers, issue identification certificates, and ensure that the certificates were accounted for when the laborers left the area.

Upon his nomination as Internal Revenue Collector, accusations that Sears was guilty of misconduct in processing the Chinese certificates sparked a major investigation. According to Sears, there was no evidence to support "public rumor through the press...that fraudulent certificates were being printed and used by the Chinese."

Sears asserted that a former chief clerk of the Chinese Bureau named William Boyd had fraudulently used the certificates. Though Sears was not able to prove his guilt, Boyd resigned after being transferred to a different section of the Customs Bureau in San Francisco.

Finally, after charges were thrown back and forth, amidst the blare of headlines, Secretary of the Treasury William Windom pronounced Sears exonerated of all charges. California Senator Leland Stanford also defended Sears, asserting that, "Since the passage of the so-called 'Restriction Act', no Collector of this port has escaped the charge of complicity in the fraudulent use of Chinese certificates. The Courts and Collectors have alike been the subjects of unjust newspaper criticism

largely ascribable to a willingness to pander to the restiveness of public opinion on this question."

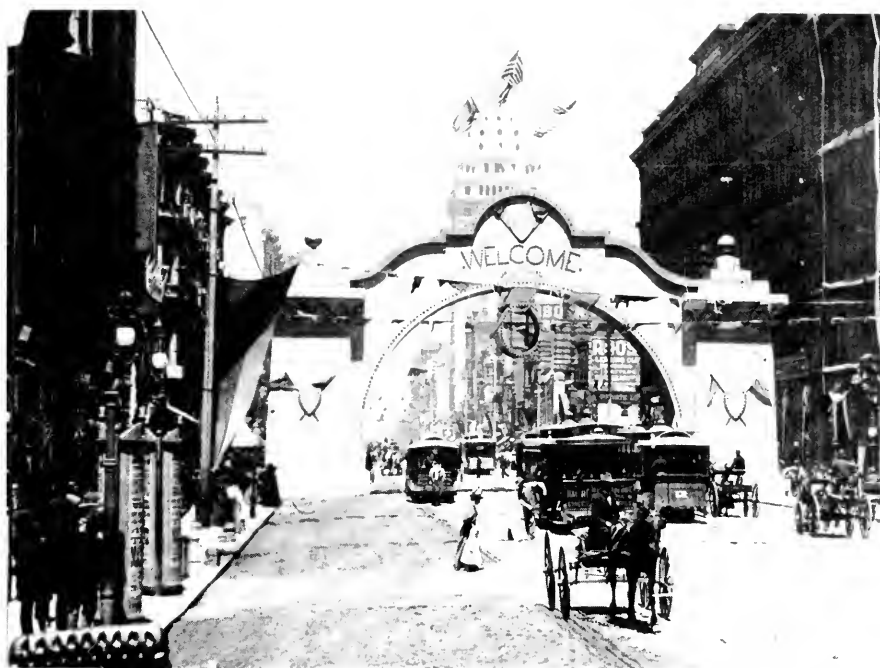
Sears assumed his post as First District Collector on March 21, 1890. That same year, San Francisco's population reached nearly 300,000, making it the largest city on the West Coast, and eighth in size among cities in the nation. San Francisco ranked second only to New York in foreign and domestic trade and the list of corporations with their main office in this city was quite lengthy by this time. The entire area covered by the First District was growing at a rapid rate, requiring long working hours and much travel by deputy collectors throughout the area.

The Collector's operation now seemed to be functioning fairly smoothly. But, just as Collector Sears began to have everything under control, he died in office barely one year after receiving confirmation, on March 27, 1891.

On March 21, 1887, President Cleveland signed an executive order reducing the number of collection districts nationwide to a total of 62 in an effort to promote economy and efficiency of operations. At the same time, the entire system of taxation was undergoing close scrutiny.

In 1891 a powerful campaign was waged in California's First District to name a new collector who would be acceptable to all business and political interests. With Republican Benjamin Harrison in the White House, it was obvious where the new Collector's allegiance had to lie.

A strong candidate for the job was Assistant San Francisco Postmaster John C. Quinn. According to Postmaster Samuel W. Backus, "If integrity, ability and long and faithful service to the party are to be taken into consideration, the claims



A mixture of horse-drawn carriages and streetcars crowded busy Market Street in San Francisco in the 1890s.

of Mr. Quinn cannot be surpassed by any citizen in this state...I can assure you that I can see no reason why Mr. Quinn's appointment would not be satisfactory to all portions of this state— especially to the businessmen of San Francisco, where the office is located and who do nine-tenths of the business done in this revenue district through the said office."

There was also a report on Quinn by Revenue Agent C.W. Eldridge which noted that Quinn was, "a stalwart Republican...It seems to me, from my present information, that Mr. Quinn is a man of such intelligence as would readily master the details of his office and afterwards administer it with an energy and ability which has been very rarely exhibited in the internal revenue service on the Coast. At least that is what I should expect of him."

With this and other glowing

recommendations, Quinn became Collector of the First District in 1891. But, as seen before, political fortunes shifted rapidly. By 1893, a scandal had very publicly erupted around Quinn.

The furor revolved around a political cartoon newspaper, *The Wasp*, purchased from Postmaster Backus by a group of Republicans, including Quinn, who wanted to use it to promote their interests. A power struggle led by Quinn ensued. The *San Francisco Evening Post's* headline on February 28, 1893, summed it up, "A Hornet's Nest: Tom Flynn of *The Wasp* Wants Collector Quinn's Scalp."

The accompanying article explained, "Thomas E. Flynn, the president of *The Wasp* publishing company, has commenced two actions against John C. Quinn, the Collector of Internal Revenue, ...Flynn charges that John C. Quinn

and Justice of the Peace Willett entered into a fraudulent conspiracy... to swindle him by preventing him from voting the stock he had purchased months before."

The crux of the scandal was outlined in the *San Francisco Examiner* on March 1, 1893, "... Boiled down...the struggle is all between Flynn and Quinn...Flynn represented the element that wanted to run the Wasp as a paper, and for business purposes only, while Quinn was looking after the interests of Backus and the politicians who had an eye to using the paper for the forthcoming campaign."

After some further machinations, Quinn was unanimously elected president of the publishing company, prompting a great public outcry. Typical was this June 30, 1893, letter to Secretary of the Treasury John G. Carlisle from a group seizing the opportunity to put forward its candidate for Collector, "We respectfully urge immediate appointment of O.M. Welburn as Collector of Internal Revenue First District, in place of John C. Quinn, who ought to be removed."

Ultimately, Quinn was removed from office. Democrats now hopped on the bandwagon to nominate Osca M. Welburn. Former California Congressman John R. Glascock wrote a strong endorsement to President Cleveland on April 3, 1893, saying, "...Mr. Welburn has been a successful merchant. He is well educated and his character is unimpeachable. His activity in party affairs has been highly creditable to himself and beneficial to the democracy. He was an important factor in making California's delegation to Chicago a unit in your interest...."

Mark L. McDonald, World's Fair Commissioner from California at Large, noted, "Mr. Welburn enjoys a

unique distinction; he is a California Democrat without any enemies."

With these and more endorsements in hand, President Cleveland named Osca Welburn Collector of the First District in November 1893. For his work, Welburn received an annual salary of \$4,500. At this time salaries were based on the amount of tax collected. Welburn was expected to bring in more than \$1,000,000.

During the 1890s, the failure of the Reading Railroad revealed weaknesses in the nation's financial system. The Greenback-Labor Party called for nationalization of the railroads, banks, and telegraph systems. Pressure was building to reinstate some kind of income tax.

In December 1893, President Cleveland endorsed the implementation of "a small tax" on corporate income in his annual address to Congress. Sentiment was growing throughout the country that the wealthy had not carried their fair share of the tax burden. Adding fuel to the fire, the *New York Tribune* identified 4,000 millionaires, three quarters of them concentrated in seven states: New York, Pennsylvania, Illinois, Massachusetts, Ohio, New Jersey, and California. Most of these millionaires reportedly paid little, if any, tax at all.

A heated debate ensued. The only thing all sides seemed to agree on was that any new income tax should affect only the very rich. Several different tax schemes were proposed. When the Wilson Tariff Act of 1894 was put forward, an amendment was added to reinstate an income tax for the first time in over 20 years. The bill passed both houses and became law on July 3, 1894. The tax consisted of a flat rate of two percent on corporate incomes and on individual incomes over \$4,000.

Shaking the Foundations

As it turned out, the debate over the income tax was not over. In 1895, the Supreme Court ruled that the income tax enacted an amendment to the Wilson Tariff Act the previous year was unconstitutional.

Collector Welburn, as well as collectors across the country, faced a restructuring of their operations. The passage of the Wilson Tariff Act in 1894 had prompted the Bureau of Internal Revenue in Washington to organize an income tax division. This new organization and any field organizations created to support enforcement of the income tax were disbanded the following year as a result of the Supreme Court decision.

In the midst of the continuing debate over the merits and the constitutionality of the income tax, once again, defamatory charges were directed at the First District Collector's Office. Another scandal erupted as accusations of ineptness and blackmail were brought against Collector Welburn.

Republican J.T. Brown alleged to Treasury Secretary Lyman Gage on June 23, 1897, "The very large defalcation in the San Francisco Collector's Office is worthy of your special attention....[Welburn] has spent most of his time since his appointment in the company of abandoned women, and has only occasionally given a perfunctory attention to the duties of his office. His Chief Deputy Lupe has been more constant in his attendance at his desk, but only with a view to reap and share black mail from unfortunate violators of the law....The Revenues

are suffering every day. Democratic Collectors and Deputy Collectors cannot be expected to report Democratic Frauds and defalcations. The whole service needs the broom that sweeps clean...."

A San Francisco newspaper expanded on the charges by asserting that a cashier named Isaac Norton had embezzled cash from the First District. The paper stated that the shortage "is now known to be in the neighborhood of \$50,000, and it may be more...His shortage, so far as ascertained, arose from retaining money received from the sale of stamps, principally beer stamps."

Before the charges were resolved Norton committed suicide. This led the newspaper to observe, "Norton's suicide has made public the loose and negligent methods of doing business in the Internal Revenue Office — a condition known for a long time to many who were familiar with revenue matters."

John C. Lynch replaced Osca Welburn as District Collector after his confirmation by the Senate on July 24, 1897. Lynch was a seasoned politician who managed to serve as First District Collector for ten years, longer than any previous collector in San Francisco, until 1907.

Nonetheless, Lynch's tenure as the fourteenth Collector of the First District was not without controversy. During his administration, political problems continued to plague the Collector's Office. Lynch, it appears, used his position mainly to dole out jobs and other favors to the party faithful.

The decastation of the 1906 earthquake is shown in this photograph of the area near the corner of Pine and Powell Streets.

This was detailed on January 29, 1902, in a sworn statement by John H. Harney, "In the Legislative campaign of 1900, John C. Lynch was an active manager...During the last campaign, Mr. Lynch was consulted at the Internal Revenue office by active political leaders from all over the city. [He was]...generally regarded as the leader of a political faction.

A Citizens' Petition against Lynch in January 1902 alleged that he was commonly recognized as a political boss and that he used his office as a headquarters for local politicians. Another sworn account reported Lynch boasting that, "...you have several breweries in your district and they employ many men, and I can make the proprietors of those breweries tell their men to vote for and elect your ticket; I can make them do anything for me, as I have done favors for all those breweries through my office."

Finally, President and General Manager of the Times-Mirror Company Harrison Gray Otis asserted that the Collector had instigated a scheme "to create a bogus record in order to give Mr. Lynch a higher, though false, standing with the Department...this was done through his solicitation of wholesale liquor dealers, brewers and cigar-makers whom he induced to buy enormous amounts of revenue stamps in advance of their requirements and at just the time to serve Mr. Lynch's purpose in making up his official returns."

Despite these and other allegations, Lynch's power base held firm and his office appeared to prosper in the early years of the twentieth century. A 1901 account in the *San Francisco Call*



noted that the headquarters of the Bureau of Internal Revenue in Washington, D.C. had ranked the District number one in total collections. With collections over \$4 million in a single year, Lynch was reappointed Collector in 1902 and remained in office for five more years.

The often negative impact of the political patronage system on the efficiency and reputation of the Bureau of Internal Revenue during these years was not limited to San Francisco's First District. Similar incidents occurred throughout the country. The system itself was so inbred that an average citizen rarely had a chance to attain any politically-appointed post. Party faithful had no trouble filling large files with petitions and endorsements from prominent politicians and business leaders.



A wistful petition to the President from the wife of an employee of the First District underscored the futility of this endeavor for an outsider. In a letter to President Theodore Roosevelt dated December 9, 1901, this woman wrote, "I take the liberty of writing to you, in order to suggest the appointment of my husband, Frank H. Driscoll for Collector of Internal Revenue for this district. He is honest, and capable to fill the position. He has been connected with the office here for about seven years. The newspapers have cited cases of your having made appointments where one has had no political influence, which suggested my writing to you. I am respectfully, Mrs. Frank H. Driscoll."

This wifely act of faith was Frank Driscoll's sole endorsement. The

letter was duly acknowledged and consigned to posterity.

A year before Collector Lynch left office, an event occurred that dramatically changed life in San Francisco. On April 18, 1906, a devastating earthquake rocked the area. The result was chaos. Gas mains broke, buildings collapsed, and fires raged through the city. In the end, more than 4.7 square miles had burned and over 28,000 buildings were destroyed.

The earthquake presented both tragedy and opportunity to the people of San Francisco. Tragedy in the waste of lives and property; opportunity in the chance it afforded people to forge a new beginning. The rebuilding of the city was underway as soon as the earthquake ended and the fires were put out.

One major San Francisco church, repository of its parishioners' birth records, managed to save its precious ledger books of names. But, not surprisingly, many similar books disappeared after the quake. Many people swore that their birth records had been lost in the rubble. They then quickly applied for new birth certificates, using new names, freeing themselves of any previous personal, business, and tax obligations.

Ironically, the horrors of the quake had been foretold by former First District Collector Frank Soulé in his 1855 book, *The Annals of San Francisco*. Soulé and his co-editors discussed the earlier San Francisco quakes of 1812, 1829 and 1839, then remarked, "God help the city if any great catastrophe of this nature should take place. Her huge granite and brick palaces, of four, five, and six stories in height, would indeed make a prodigious crash, more ruinous both to life and property, than even the dreadful fires of 1849, 1850, and 1851. This is the greatest, if not the only possible obstacle of consequence to the growing prosperity of the city."

Life had to go on and the city began to rebuild. In 1907, August Muenter became Collector for the First District. Muenter served until 1912 and during his tenure the District Office moved to new quarters in the recently completed Customs House. Construction began on this building shortly after the quake and was completed in 1911 at a cost of \$1.5 million.

Situated on Battery Street between Washington and Jackson Streets, the Customs House provided offices for a number of government operations in the early twentieth century. Some of the functions located here, in addition to

the Internal Revenue Collector and the Customs Office, were the Immigration Service, the Geologic Survey, the Lighthouse Service, offices of the Departments of Justice and Interior, and the Federal Bureau of Mines.

San Francisco continued to grow and expand in the aftermath of the quake. By 1909, nearly 1,800 manufacturing institutions were listed as operating in the city. Considering San Francisco's distance from the eastern manufacturing centers of the United States, the number of activities headquartered in this western seaport area provided testimony to the vitality of the region.

On July 1, 1909, the Sixth California Collection District was formed. This new District was made up of counties taken from the First District, including Kern, Los Angeles, Orange, Riverside, San Bernadino, San Diego, San Luis Obispo, Santa Barbara, Imperial and Ventura. California now had three collection districts: the First, the Fourth, and the Sixth.

Meanwhile, sentiment continued to grow in Congress to reinstate some form of income tax based on the ability to pay. Resentment against the wealthy was on the rise throughout the country at the same time that revenue collections had been falling for some years.

Following the end of the Spanish-American War, Congress had repealed many of the excise taxes enacted in the late nineteenth century, leaving the country dependent once again on tobacco and alcohol taxes as its primary means of raising revenue.

The Supreme Court's action in 1895 declaring the income tax provisions of the Wilson Tariff Act unconstitutional presented a major roadblock to enacting any new

income tax measure. In response, shortly after taking office in 1909, President William Howard Taft recommended that Congress propose a Constitutional amendment which would give the government the power to tax incomes without apportioning the burden among the states according to population.

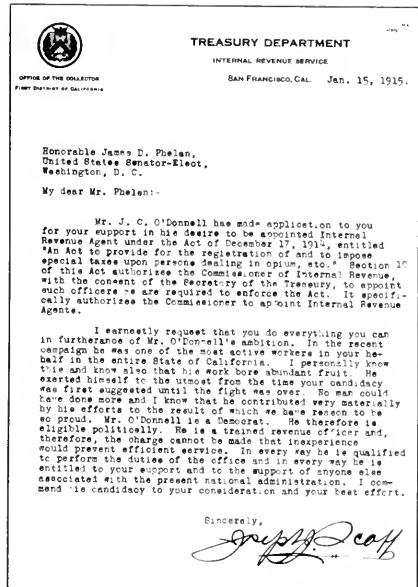
President Taft was following the lead of his predecessor, President Theodore Roosevelt. In 1907, Roosevelt had declared that "most great civilized countries have an income tax and an inheritance tax. In my judgement both should be part of our system of federal taxation."

Taft also proposed the establishment of a two percent excise tax on the net income of corporations. After much discussion, a corporate excise tax was enacted in August 1909, imposing a one percent tax on net corporate incomes over \$5000. The Bureau of Internal Revenue in Washington, D.C., established a Corporation Tax Division to handle the collections.

In the interim, Congress quickly approved the constitutional amendment allowing an income tax to be levied on the American population. Because any constitutional amendment required approval of three quarters of the states, the debate over the income tax continued over the next several years.

On October 1, 1912, another realignment of collection districts in California occurred. The Fourth Collection District was merged with the First Collection District, making the San Francisco-based district one of the largest in the country. This geographic realignment left two collection districts in California—the First and the Sixth.

By the time Joseph J. Scott became First District Collector in



A letter from Collector Scott to Senator-Elect James Phelan urging the appointment of Mr. J. C. O'Donnell as a revenue agent demonstrates the use of the political patronage system.

1913, the income tax amendment had finally garnered sufficient support from the states. It had taken almost four years for the required majority of the 48 states to ratify the measure. California was the sixteenth state to ratify the amendment in 1911. Nine states never ratified the amendment.

Nevertheless, by February 1913, a sufficient number of states had ratified what became the Sixteenth Amendment to the Constitution. The amendment stated simply, "Congress shall have the power to lay and collect taxes on incomes, from whatever source derived, without apportionment among the several States, and without regard to any census or enumeration." The income tax was back!

President Woodrow Wilson signed the Underwood-Simmons tariff bill into law on October 3, 1913, impos-

ing the first income tax of the twentieth century. Since this time, the United States has never been without a tax on individual incomes. The income tax provisions of this tariff bill had been drafted by Tennessee Representative Cordell Hull and included a one percent tax on net personal incomes over \$3,000, with a surtax of up to six percent on incomes over \$500,000. The act repealed the 1909 corporate tax but imposed a new tax on the net income of corporations.

Even the reinstatement of the income tax through passage of the Sixteenth Amendment did not mean that the average American citizen began paying taxes during this period. For perspective, the average worker in 1913 earned approximately \$800 per year, well below the \$3,000 threshold for paying the income tax.

Significantly, the new statute provided for collection at the source, commonly known as withholding, which became a more crucial aspect of our income tax system in later years. The withholding applied to taxes on rents, salaries, and wages paid by corporations and individuals, and to corporate dividends and interest payments. Though it is often assumed that withholding began during the second World War, its true inception came as part of this important 1913 statute.

The Bureau of Internal Revenue now had to gear up to meet its new responsibilities. The Bureau headquarters in Washington, D.C. established a Personal Income Tax Division as well as a correspondence unit to field questions from the public. A big push was made to hire additional personnel. In 1913, 277 people worked for the Bureau of Internal Revenue in the headquarters with a force of 3,723 in the field.

By 1915, the Washington staff had nearly doubled and the field force grew to 4,200.

Similar changes were underway in California's First Collection District. To manage the increased workload, the District was divided into divisions, with a deputy collector assigned to each.

Working in the district at the time were Deputy Collectors Walker, Robb, Sheehy, Feeney, Bothwell, Butterfield, O'Connor, Claney, Preble, Roberts, Church, Lynch, O'Donnell, Bailey, Allen, French and Comfort. For the most part they were male, Irish, San Francisco natives, with political or family connections to the Police Department or City Hall.

The District also had two revenue agents assigned, Anderson and Bender. Their territories covered large geographic areas, with cases stretching to Cloverdale, Hayward, Chico, Sacramento, Redwood City, Woodland, Salinas, Amador City, Elk Grove, Jamestown, Garberville and more. It was a hectic time for the First District.

World War I and Prohibition: Additional Responsibilities

With war in Europe heating up in 1914, import revenues began to decline. The government looked to additional internal taxes to replace these lost revenues. Although income taxes were not raised at this time, in October 1914 excise tax rates were increased on beer, wine, champagne, and other spirits.

Special occupational taxes were also imposed on certain businesses or enterprises. For example, stockbrokers paid an annual tax of \$30; pawnbrokers paid \$50; commercial brokers and commission merchants paid \$20. Theatre owners paid a tax ranging from \$25 to \$100, depending on the seating capacity of their theatres. Circuses, bowling alleys, and billiard rooms also paid a tax.

Despite the prospect of war, San Francisco decided to host a large international gala to celebrate both its return from the ashes of the earthquake and the opening of the Panama Canal. The Panama-Pacific International Exposition opened in 1915 in Harbor Cove, an area now known as the Marina District.

Countries throughout the world commissioned magnificent, temporary buildings to be erected throughout the area. Noted architect Bernard Ralph Maybeck designed a special tribute to the arts, dubbed the Palace of Fine Arts—the only Exposition building, as reconstructed

in the 1960s, that still survives. Total attendance at the Exposition soared to nearly 19 million. After ten months, the extravagant wonderland was dismantled, and Californians were left to face some harsh realities.

These realities included higher tax rates. As the United States edged closer to war, the Emergency Revenue Act of 1916 doubled income and corporation tax rates, included a new estate tax, a tax on stock dividends, and a tax on munitions manufacturers' profits. This law also provided for publication of income tax statistics for the first time, marking the beginning of the Statistics of Income program.

In 1916, internal revenue receipts reached nearly \$513 million, the largest collection in any fiscal year since the Bureau of Internal Revenue was established in 1862. The contribution of the First California District to total collections that year came to over \$12 million.

To bring in additional revenues as the United States joined the war effort in 1917, Congress passed the War Revenue Act of 1917. This Act was a sweeping measure covering income, excess profits, beverages, tobacco, public utilities, and insurance, plus excise and estate taxes.

To increase awareness of the changes in the tax laws, the Bureau



of Internal Revenue launched a nationwide public education program in 1917, aimed at popularizing the war taxes by appealing to national pride and patriotism in support of the war effort. The Bureau also initiated its own formal training program that year.

The following year, to raise even greater revenues, Congress passed the Revenue Act of 1918. This Act codified all existing tax laws for the first time into what became known as the Internal Revenue Code and included higher income tax rates as well as surtax rates as high as 77 percent. To allow for adjustment to the new law, the filing deadline was pushed back from March 1 to March 15.

In 1917, Justus S. Wardell replaced Joseph Scott as Collector of California's First District. The work of the District increased as each new piece of legislation was enacted.

As more and varied taxes were collected, the need for revenue law enforcement grew. In 1919, Internal Revenue Commissioner Daniel C. Roper, who had served previously as Assistant Postmaster General, transferred six experienced Post Office Inspectors to the Bureau of Internal Revenue in an attempt to improve enforcement efforts. Each Inspector then became a Special Agent-in-Charge of a division of the new Intelligence Unit, given responsibility to detect and prevent tax fraud.

Other areas of the Internal Revenue operation were also expanded. Revenue agents

increased their caseloads and the work force grew. As the 1916 Annual Report of the Commissioner of Internal Revenue stated, "The work performed during the last fiscal year by revenue agents and the force employed under their direction was very efficient. These officers worked early and late in the performance of their duties incident to enforcing the internal-revenue laws and much credit is given them by this office for their hearty cooperation, zeal, and loyalty."

By the time World War I ended in 1918, the Bureau of Internal Revenue had collected almost \$9 billion to offset the total cost of the war, estimated to be around \$35 billion. As the Commissioner commented, "Not every citizen has been privileged to bear arms or to render signal public service during the war....but in the payment of internal-revenue taxes every American has had the opportunity to recognize and support in an orderly, substantial, and equitable manner, the established institutions of Government and the Constitution of the United States."

Following ratification of the Sixteenth Amendment and a reorganization of the Bureau of Internal Revenue, the position of Collector continued to supervise collection operations in each district while an Internal Revenue Agent-in-Charge directed the audit function, and a Special Agent-in-Charge headed up a force of special agents in the Intelligence Unit.

On May 1, 1920, the geographic area of the First District changed again. The state of Nevada, administered by California since 1883 when it became part of the Fourth District and later part of the First District, was split off and estab-

Increased tax rates and draft parades such as this one near the Ferry Building and through the streets of San Francisco brought World War I closer to home in 1917.



lished as a separate district. The configuration of the District remained unchanged until 1983.

In the 1920s, with the economy booming after the war, Congress enacted five separate tax cuts, yet revenues continued to increase. In California's First District, still located at the Custom House Building, John P. McLaughlin replaced Collector Wardell in 1921.

It was also during this year that a young man named Frank Harless joined the First Collection District, beginning a family tradition of leadership in tax collection that would last over 50 years. Harless eventually rose to become Special Agent-In-Charge in the 1930s, remaining in that position for 15 years.

Raymond Harless followed his father into the Bureau in the 1940s, beginning a distinguished career that culminated with his retirement in 1973 from the position of Deputy Commissioner in Washington, D.C., the top career civil service position in the tax administration agency.

McLaughlin was appointed First District Collector by Republican President Warren G. Harding and was widely endorsed by labor orga-

nizations. A San Francisco native, McLaughlin eventually became head of the Teamsters Union. He was a popular man who enjoyed the longest tenure of any Collector of the First District to that date, remaining in office for nearly 12 years, until 1933.

A retired employee who worked in the First District during the 1930s recalled, "Everyone was polite....People at that time felt it was an honor to work for the IRS. You had to be a person of integrity. Friends were in awe when they heard you worked for the IRS. Other agencies honored the IRS, too."

San Francisco attracted business from around the world as its position as a major port and financial center grew. Real estate, insurance, construction, and shipping prospered. The Union Iron Works in San Francisco built ships for the U.S. Navy including the battleship Oregon. Throughout the First District, the 1920s marked a time of prosperity. Business and agriculture flourished, and it was a period of growth and development.

After World War I, prohibition became law with the adoption of the



A group photo of the staff of the San Francisco office of the Internal Revenue Agent-In-Charge was taken on July 17, 1928.

Eighteenth Amendment in 1919. Congress had passed the National Prohibition Enforcement Act, also known as the Volstead Act, over President Wilson's veto, providing authority for federal enforcement of prohibition.

This act gave the Commissioner of Internal Revenue primary responsibility for investigating and enforcing prohibition. The Bureau of Internal Revenue became responsible for issuing permits for the manufacture, sale, and transportation of alcoholic liquors for medicinal, industrial, and religious uses. To support this new work, a Prohibition Unit was formed in Washington, D.C. in December 1919, one month before prohibition laws went into effect.

During the roaring twenties there was widespread trafficking of illegal alcohol, known as bootlegging, throughout the country. In northern California speakeasies flourished. Named Federal Prohibition Director for California was S.F. Rutter, who was provided an office at the

Federal Building in San Francisco. H.D. Smith was appointed Narcotic Agent-in-Charge for the San Francisco Division of the Prohibition Unit, which covered all of California, Oregon, Washington, and Nevada.

By 1925, the Prohibition Unit had more than 3,700 employees working throughout the country on prohibition and narcotics enforcement. In that year alone, prohibition enforcers made more than 77,000 arrests and seized property valued at more than \$11 million.

Despite the frustrations of dealing with prohibition on a national level, prosperity returned to the nation for a limited time in the 1920s. California celebrated its 75th birthday with a big Diamond Jubilee. Business was growing, and with the influx of new industry the San Francisco-based Pacific Stock Exchange became the center of frenzied activity. Speculation was intense and almost every member of the Exchange made money.

In the Bay Area, people began to

explore new ways to ease the transportation burden. Since 1918, the Board of Supervisors had been studying the feasibility of connecting San Francisco and Marin County with a bridge. In 1923, the formation of the Bridging the Golden Gate Association was the first step in turning hope into reality.

Meanwhile, in 1926, San Franciscans voted to build an airport 15 miles south of the city on the site of the Mills Estate in San Mateo County. The completed airport opened for business in 1927, inaugurated by a flight to the airfield by Charles Lindbergh.

By 1928, revenue agents' caseloads in the First District were substantially larger than a few years earlier. Under the supervision of Internal Revenue Agent-in-Charge E.C. "Ernie" Wright, agents moved into new offices in the Subtreasury Building on Pine Street, which later became home to the Pacific Stock Exchange. Wright was a powerful man who had a long career with Internal Revenue.

In San Francisco, Wright had some forward-looking ideas about internal revenue operations. In a December 1927 article, Wright spelled out ways of effectively working with the taxpayer by explaining, "We are agreed that the Bureau, being one of the largest official organizations in the world, must be ever vigilant in the building up of that most valuable of intangible assets [good will]....Bureau representatives, whether they be revenue agents, auditors or valuation engineers, should make every effort to convince the taxpayer of the honesty of their convictions in recommending changes in tax liability.

office. The taxpayer's explanations and arguments should receive courteous and careful consideration. There will always be differences of opinion in the adjustments of tax cases. But so long as they remain honest differences no harm is done."

"Arrogance has no place in public

A Harsher Reality

As the roaring Twenties reached their highest fever pitch in 1929, the stock market crashed, plunging the country into a devastating depression. The spreading downward economic spiral took some time to reach the west coast, but when it hit, it hit hard. The main industries of Northern California—shipping and finance, industry and agriculture—were shaken and damaged by the crash.

“Out of Business” signs sprouted throughout the area and accounts of tragic suicides filled the newspapers. In San Francisco, soup kitchens were set up at Rich and Clara Streets, and men, women, and children sold pencils and apples along Market Street.

Towards the end of the 1920s, the Intelligence Unit began to change its emphasis. Previously, its primary focus had been the enforcement of prohibition laws. This responsibility was turned over to the Department of Justice in 1930, allowing the Bureau of Internal Revenue to refocus on tax fraud investigations, joining the battle against mob violence and the syndicates led by racketeers. It was this type of investigation that led to the tax evasion conviction of notorious gangster Al Capone in Chicago.

In San Francisco, the Intelligence Unit had occupied offices at 412 Grant Building since 1922. By 1929, the Intelligence Unit had moved to new quarters at 420 Post Office Building. The Special Agent-in-Charge of the Intelligence unit was a man named Alf Oftedal, who went on to become Assistant Prohibition Commissioner in Washington, D.C.

In 1929, President Herbert Hoover nominated Oftedal to replace McLaughlin as First District Collector. Unfortunately, the President had not consulted with California Senator Hiram Johnson regarding the nomination. Johnson protested the appointment of Oftedal, at one point labelling him a “peripatetic prohibition sleuth.”

However, the more damaging discovery was that Oftedal had never actually become a resident of San Francisco, retaining residency in his home state of Maryland. Federal statutes required that Collectors be residents of the district in which they served. As a result, Senator Johnson successfully blocked Oftedal’s nomination.

In 1930, B.W. Wilde, Jr. became the Internal Revenue Agent-in-Charge for the First District, and the revenue agents moved to the sixth floor of the Sheldon Building at 461 Market Street.

Up to this time, revenue agents in Los Angeles had been supervised by agents in San Francisco. Long-time IRS employee and former executive Ray Harless remembered, “...in the early 1920s, the Office of Internal Revenue Agent-in-Charge here in San Francisco had a supervisory role relative to the Office of Internal Revenue Agent-in-Charge in Southern California. In 1928, for example, a whole group of revenue agents from San Francisco...went to Southern California on what was referred to as a field trip to conduct audits down there since they didn’t

The Longshoremen's strike of May 11, 1934 tied up docks and brought San Francisco to a halt.

have an adequate staff....So they sent...20 to 40 people down there for a period of two or three months. My father was in charge of that group."

On February 1, 1930, a new district was created in Los Angeles, bringing the number of collection districts throughout the country to 64.

Nationally, the Audit Review Division (which reviewed all classes of income tax returns for final closing) was reorganized on June 16, 1930. The new organization grouped audit personnel in sections directly related to the source of the work (revenue agent divisions and collection districts) on a geographical basis.

Five audit sections were established throughout the country. Section E handled all returns filed in the states of Arizona, Arkansas, California, Colorado, Idaho, Kansas, Montana, Nevada, New Mexico, Oklahoma, Oregon, Texas, Utah, Washington, Wyoming, Alaska, and the Hawaiian Islands.

Gnawing away at the internal revenue operation was the continuing impact of the stock market crash. As the depression deepened, growing numbers of people were unable to find jobs and support their families. In 1932, revenue collections totalled \$1.5 billion nationwide, the lowest amount since 1917. By 1933, more than 13 million people were out of work. The country looked to the federal government to begin the process of recovery. This meant more expenditures and, also, more taxes.

In San Francisco, labor unions united and turned to the Democrats for help. They backed Presidential candidate Franklin D. Roosevelt, who promised swift legislative relief. Following his inauguration on March



4, 1933, Roosevelt promoted his "New Deal" legislation aimed at stimulating the economy and putting people back to work.

Congress responded quickly by passing the Emergency Banking Relief Act only five days later, on March 9, 1933. Through the summer of 1933, Roosevelt oversaw implementation of the National Recovery Administration, directly aimed at ending wasteful competition, encouraging better regulated pricing and selling policies, and providing for higher wages and shorter hours



in the work place. The Agriculture Adjustment Act subsidized farmers, and the Works Progress Administration provided many jobs for those out of work.

On August 14, 1935, President Roosevelt signed the Social Security Act into law. In doing so he declared, "We can never insure 100 percent of the population against 100 percent of the hazards and vicissitudes of life, but we have tried to frame a law which will give some measure of protection to the average citizen and to his family against the loss of a job

and against poverty-ridden old age."

The social security legislation brought additional responsibilities for the Bureau of Internal Revenue. In 1937, the Social Security Tax Division was organized in Washington, D.C., as the Bureau was given responsibility for collecting revenues and turning them over to the Social Security Trust Fund. It took time to fully establish this new operation. In the first year, total Social Security taxes collected amounted to only \$250 million nationwide.

In December 1933, prohibition

was repealed, reinstating the enforcement of federal liquor laws by Internal Revenue. The Bureau also was charged with regulatory and tax collecting duties related to alcoholic beverages. Subsequently, an Alcohol Tax Unit was formed in Washington, D.C. to administer revenue laws relating to the production, warehousing, and payment of taxes on distilled spirits, alcohol, wines, fermented liquors, cereal beverages, and denatured alcohol. The Unit later took on the responsibility of administering the National Firearms Act and the Federal Alcohol Administration Act.

In 1933, Attorney John V. Lewis became Collector of the First District. Ray Harless recalled that Lewis had served as Roosevelt's campaign manager in Northern California. Harless said, "He was 26 years old. John Lewis, as his reward, following Roosevelt's election, became Collector of Internal Revenue."

According to another former employee, "[John] Lewis...told the Democrats who were looking for jobs that he wasn't going to wreck the office by firing people just to put in Democrats. Because of this he had a lot of problems with the Democrats."

Nonetheless, John Lewis seemed to be a man of character, personally swearing in every new District employee. His assistant was former attorney Richard Nickell, who later served as acting Collector.

Lewis acquired some notoriety during a speech before the San Rafael Rotary Club in November 1935, when he made an offhand remark that the District had discovered that

a madam from one of San Francisco's most prosperous houses of prostitution had deducted her payoffs to the local police department as legitimate business expenses.

Lewis went on to say that the police had not been reporting this income and one police captain had earned an estimated \$100,000 from prostitution in a single year. As a result of this offhand remark, the San Francisco District Attorney launched a full scale investigation that eventually landed in the hands of a grand jury.

Meanwhile, the Bureau of Internal Revenue continued to expand and develop. The Revenue Act of 1934 created the offices of General Counsel for the Treasury



The completion of the Bay Bridge in 1936 opened a new era in transportation for the Bay Area.

Department and Assistant General Counsel for the Bureau of Internal Revenue. The top legal officer of the Bureau was called the Chief Counsel and was responsible for litigation of cases pending in the U.S. Tax Court.

In 1934, poor working conditions on the San Francisco docks combined with a powerful and corrupt waterfront union (known as "the Blue Book Union") led to a bloody strike. Spearheaded by former Australian labor organizer Harry Bridges, the strike demonstrated the importance of allowing dock workers a say in decisions affecting their livelihood. Bridges resurrected the long-dormant International Longshoremen's Association (ILA),

made demands for better conditions for unionized workers, and in May began the strike that closed down all ports on the Pacific Coast.

July 5, 1934, became known as "Bloody Thursday" in San Francisco as violence erupted with more than 100 men injured and two killed. Eleven days later, the ILA closed down the city in a huge general strike. Ultimately, the union won out, but the strike affected industry all along the West Coast, resulting in monetary and business losses.

The history of labor relations in the San Francisco Collection District of the IRS also began during these years when a group of employees formed an employee association. In 1937, the National Association of Internal Revenue Employees (NAIRE) was born in the Milwaukee, Wisconsin District and five years later, the San Francisco employee association became an official chapter of NAIRE.

In 1937, the First District relocated to the new Federal Building in San Francisco, at 50 Fulton Street. Built during the depression years by the WPA, the building "was exquisitely designed, with a garden in the center," according to former employee Emily Maraccini Ottoboni who began her career with the District in January 1937.

Ottoboni recalled, "The entire District Office was on the second floor. There were approximately 200 people there, with 100-150 people in the field. Women wore hats and gloves. The atmosphere was very friendly. Everybody knew everyone else. When employees arrived in the morning they checked in with a timekeeper, who sat at a table with a pad."

In 1937, former Revenue Agent Frank Harless took over



as Internal Revenue Agent-in-Charge for the First District. He enjoyed the longest tenure of any individual in this position, holding it until 1952. Harless then became Assistant Regional Commissioner for Audit in San Francisco until his retirement in 1955.

Despite bad times, by the late 1930s two dreams had become realities in San Francisco. The Bay Bridge, connecting San Francisco to the East Bay, was completed in November 1936. Linking the North Bay to San Francisco, the Golden Gate Bridge was inaugurated on May 27, 1937, by a quarter of a million people strolling across the span, momentarily leaving the cares of the depression behind.

With each advance, the Bay area grew. In 1938, Clifford Anglim took over as First District Collector. During his years in office, Anglim was responsible for overseeing implementation of Social Security taxes.

Emily Ottoboni was one of a large group of employees hired during this period to establish the system of collecting social security taxes in the newly created Social Security Branch in the District Office. Ottoboni recalled, "We were put to work on the income tax during the filing season and then were moved back to Social Security."

In February 1939, the Golden Gate International Exposition opened on Treasure Island. Fanciful attractions were given regal names, such as "the Court of the Moon," and "the Tower of the Sun," and a model of San Francisco in 1999 drew natives and tourists alike. At the end of the 1930s with rumors of impending war escalating, the glitter of the Treasure Island fair faded quickly. It closed in 1940 and the Island eventually became a naval base.

World War II: Responding to New Demands

The economic demands brought on by World War II pointed the way to higher taxes, a broader tax base and new ways of administering the tax system. Supporting the military, producing and obtaining goods, and fighting inflation were major goals of the Roosevelt administration.

Three crucial changes in taxation came during this period: the adoption of the short tax return form in 1941; withholding taxes at the source on a wide scale in 1943; and adoption of the standard deduction in 1944. The development of the "pay-as-you-go" concept, known today as the withholding system, formed the basis of the modern system of taxation in the United States.

The income taxes enacted during the World War II period dramatically altered the tax base. Before the war, the income tax affected only about eight million people. With the new, broadly-based war imperatives, approximately 50 million people were required to file income taxes, over 40 million of them for the first time.

The tax threshold was now low enough so that income taxes applied to the average middle income American. Combined with tax withholding from wages and salaries, the federal income tax had a profound impact on the American public in the World War II years.

President Roosevelt called the 1942 Revenue Act "the greatest tax bill in American history." This Act sharply increased most existing

taxes, introduced the Victory Tax, lowered exemptions, and in the end, broadened the tax base by bringing thousands of individuals into the taxpaying population for the first time. Despite President Roosevelt's praise for the law, not all Americans found as much to cheer about.

An article by financial writer Sylvia Porter titled, "The Looming Nightmare of March 15," in a 1943 issue of *Liberty Magazine* warned, "A few weeks from now, 50,000,000 of us will receive long, heavy envelopes containing our March 1944 income tax blanks—the most brutally complicated and unintelligible forms ever issued by any government to its citizens."

What Porter was referring to were the numerous pages of forms and instructions covering the Victory Tax, the regular income tax, the wartime surtax and various other miscellaneous tax provisions, including a "partial forgiveness" of 1942 taxes, all enacted by the Roosevelt administration to support the vastly increased requirements of the wartime economy.

Millions of inexperienced taxpayers had never before faced paying an income tax. Now they had to decipher and fill in pages of detailed tax documents. Porter declared, "The Treasury's own men wince at the picture of millions of war-workers wrestling with the confounded confusion of 'forgiveness' under the pay-as-you-go-law....As Secretary

Your 1944 Income Tax Return

Who Must File.—Everyone whose 1944 income was \$500 or more.

When to File.—Not later than March 15, 1945. File early.

Where to File.—With the Collector of Internal Revenue for your district.

Form of Return.—Use either your Withholding Receipt, Form W-2 (Rev.), or Form 1040.

Where to Get Forms.—Get Withholding Receipt from your employer; if needed, get Form 1040 from the Collector of Internal Revenue, your employer, bank, or post office.

Tax-Exempt Income.—Do not include in your income any wholly exempt items, such as military pay, first \$1,500 of military pay, Government contributions to monthly family allowances, and social security benefits.

Husband and Wife.—If husband and wife each have income of their own, one can claim exemption for the other only by including both incomes in a combined return.

Exemptions for Dependents.—The 1944 law changed the rules for claiming dependents. Principal changes permit exemption for a dependent relative over 18 and prohibit an exemption for a dependent with \$500 or more income. See other side for new dependent rules.

Dependents' Income.—Do not include in your return any income of a dependent. If a dependent for whom you claim an exemption had income from which tax was withheld, he should file a return to get a refund.

Old-Style Receipts.—During most of 1944, an old style of Withholding Receipt, entitled "Statement of Income Tax Withheld From Wages", was issued employees upon leaving their jobs. If you have any old-style receipts, attach them to your return along with all other Withholding Receipts for 1944.

Collector Figures Tax.—If you use your Withholding Receipt as your return, mail it to the Collector, who will figure your tax, give you credit for tax already paid, and send you a bill or a refund check for any difference. He will figure your tax from the table shown in this leaflet.

Community-property States.—In States with community-property laws, married persons whose combined income meets the "TEST" specified in the Withholding Receipt may use such a receipt as a combined return, dividing their income on Line 4 in accordance with State laws. The Collector will figure the tax on either the combined or separate incomes, whichever is to the taxpayers' advantage under the laws of the State. However, if for any reason husband and wife desire to file separate returns, they must use Form 1040.

U. S. GOVERNMENT PRINTING OFFICE: 1944 10—41729-1

How to Use Your Withholding Receipt as an Income Tax Return



TREASURY DEPARTMENT
BUREAU OF INTERNAL REVENUE

January 1945.

To all Employees:

This year, for the first time, most of you can use your Withholding Receipts to make your annual income tax returns. This leaflet was prepared to help you understand and fill out the new form.

Your employer gives you a Withholding Receipt to show how much wages he paid you and how much income tax he withheld from your wages during the year. Your employer has filled out the left side of the face of your Withholding Receipt. You complete the return by entering your income and listing your exemptions. You then send the original to the Collector of Internal Revenue for your district and keep the duplicate for your record.

If you worked for more than one employer in 1944, you should have a receipt from each of your employers. If you have more than one receipt, you may make your return merely by filling out the last one you received and attaching the other receipts to it.

Generally speaking, wage earners who received less than \$5,000 during 1944 will be eligible to file their returns on the new form. To find out whether you are eligible, fill out Lines 1, 2, and 3 on the receipt and read the TEST under Line 3.

Read the instructions carefully. If you need further assistance, the Collector of Internal Revenue will be glad to help you.

Samuel H. Thompson

Commissioner of Internal Revenue.

In an effort to simplify the tax process, the IRS allowed workers with incomes under \$5,000 to use their withholding receipt as their income tax return.

Morgenthau himself puts it, 'the tax forgiveness law is so complex that even many experienced taxpayers will find the computations a jungle.' "

Automation was still years away. The District received and processed all tax returns by hand, in addition to auditing returns and collecting delinquent taxes. If a taxpayer had a question, the same District Office provided tax assistance. All tax returns were filed in row upon row

of cabinets and retained in the District.

Long-time employee Georgia Parrott recalled the processing work of the San Francisco District during the years of World War II, "In January of each year, we geared up for the filing season. As the days drew closer to the filing date, our mail room began to fill up with mail bags and shortly after the due date we would be inundated."



During World War II many parts of San Francisco remained open around the clock as shown in this scene of Market Street, since much of the population was involved in shift work to keep pace with wartime demands.

The District organization during these years was geared to support processing individual tax returns. Once they arrived at the District, tax returns went to the Cashier Branch where employees opened envelopes and removed any tax payments attached to the return. Former employee and union chapter president Nick Nichols recalled, "We used to sit down there and open envelopes during the filing period. There was money and all kinds of things in the envelopes."

Here, the returns were also individually numbered and recorded. Georgia Parrott described this work, "Some of the jobs performed in the Cashier Branch were numbing. You sat there all day and just numbered returns, doing the same thing over and over and over again.... There were women who did it day after day, year after year, without any complaints."

In the Cashier Branch the returns were "blue-pencilled", which Parrott

described as the process in which returns showing a balance of \$25.00 or more due were marked with a large circle drawn in blue pencil.

Once money and checks were removed and sent to the Deposits Branch and the return was numbered, the processing operation moved to other branches where returns with errors were scrutinized and accounts with outstanding balances were pursued.

Separation of tax return processing from other District operations would not occur until years later with the advent of the service center concept in the late 1950s and fully implemented in the 1960s. Throughout the war years, the entire burden of manually processing millions of tax returns fell on the district operations.

In the San Francisco District, and throughout the country, more dramatic changes were taking place in response to the war effort. A former



In 1942, the First District moved into the old William Taylor Hotel at 100 McAllister Street.

employee recalled, "Secretary of the Treasury Henry Morgenthau said that as an act of patriotism there would be no [draft] deferments in the IRS. They [the IRS] lost a lot of key men who had to enlist or be drafted. As time went on we had two Gold Stars [men from the San Francisco District who died in action]."

Another former employee, Virginia Haas, joined the San Francisco District in 1943, less than a year out of

high school. Haas recalled that until World War II, "the common working man never paid income taxes. I know my father didn't. None of my friend's fathers did." It was during the war that people such as Virginia Haas' father were added to the rolls of tax-paying citizens.

Haas was assigned to work as a file clerk in the Wage and Excise Tax Department during the war. She recalled also working as an

Addressograph and Graphotype Operator—a machine used to make metal identification plates used as permanent mailing lists for businesses and employers filing social security withholding taxes with the District.

A native San Franciscan, Haas recalled, “Housing was very difficult to come by. People were coming in from all over the country because of the jobs available in the Bay area. There were shipyards in Sausalito and Richmond and they were building airplanes at the San Francisco airport. Because it was so hard to find places to live, people in San Francisco were cutting up flats, and building improvised additions to their houses.”

Haas continued, “During the war the city was open around the clock. People were on three different work shifts. The streetcars were as crowded at night as they were during the day. Restaurants were open all night.”

Like other businesses, the Bureau of Internal Revenue had to replace employees lost to military service. In San Francisco, a mixture of older men and women were hired to fill the vacancies. Emily Ottoboni remembered a couch installed in the ladies room, so the “elderly” women could rest.

Although Haas originally aspired to be a teacher, the abundant job opportunities with the federal government during the war years led her to begin a long career with the Internal Revenue Service. She recalled that, “All entrance tests were suspended during the war. They needed people. Anyone who could walk or talk could get a job.”

Georgia Parrott remembered that during the war, “everyone worked a seven-day week. Some of the women I met early in my career said they often brought their party clothes to

work and at the end of the day dressed up for a night on the town.”

In 1942, the Navy moved into the federal building at 50 Fulton Street, forcing the District to relocate across the street to 100 McAllister Street. This address was the home of the former Empire Hotel—one of the most unconventional sites the First District ever occupied.

Originally built by the Methodist Church in 1929 as an apartment hotel, this 27 story building had 468 rooms and was known as the William Taylor Hotel. When the hotel opened in 1930, it was regarded as a local wonder, and at the time was the tallest building in San Francisco.

During the depression, the financially failing hotel was sold and reopened in 1936 as the Empire Hotel. The new hotel featured the “Sky Room” bar, the first panoramic bar in San Francisco providing a 360 degree view of the city. In 1942, the hotel became property of the federal government and its many hotel apartment suites were converted to office space for government workers.

The government immediately went to work transforming the hotel into an office building. The ceilings of the ornate lobby were concealed and walls were removed to make several small rooms into one big room. Still, it wasn’t easy to eliminate the fact that the building had served as a hotel.

Former Revenue Agent Phil Smith remembered, “The office rooms were small hotel rooms. They put boards across the bathtubs and put coffee makers on top.” Georgia Parrott recalled that she used the bathtub in her office to store tax forms.

Virginia Haas recalled that the mezzanine area of the old hotel was “where they used to put all the desks at tax time. They’d hire

all those temporary people to sit there and open the envelopes and attach everything together and put them in boxes. The Addressograph & Graphotype Department was on the second floor. The fourth floor was where they would record the checks that came in and keep the paperwork."

The fact that the building had also served as a church in previous years was not forgotten. Because the area of the building where taxpayers came to ask questions or pick up tax forms had served as the church in earlier years, some employees used to say that taxpayers had come "to get religion," when they showed up at the building.

Since tax returns were received and processed in the District Office, the returns and related paperwork were also stored there. All original income tax files were kept for about five years in a "great big huge file room" in the basement.

The room was known to many employees as the "Burma Room." According to former employees, the room might have once served as a restaurant, or a nightclub. Former Revenue Agent Pete Horeni remembers seeing murals depicting Burmese scenes behind false walls.

Numerous stories circulated about the hotel's history. There was talk of a closed off penthouse, reported to have been where "fan dancer" Sally Rand stayed in 1939, while performing at the Treasure Island fair. The District began to use the Sky Room for its personnel operations, but even this area was taken over by the military, which built a small radar installation on the roof.

Following Acting Collector Nickell, who served during the last six months of 1942, the next

Collector was Harold Berliner who served from 1943 to 1945. A former employee remembered him as "one of the most popular Collectors. People stayed on the job because of [loyalty to] him."

Berliner had been an official of the Hockwald Chemical Company and was a strong Democrat. Virginia Haas recalled that when Berliner took over "he made a point to meet every employee, from the lowest to the highest. He made time for employees' problems and was concerned about promoting service to the public."

To insure that the government got its fair share of wartime profits, Congress passed the Revenue Act of 1943 which raised the excess profits tax on corporations to a record high of 95 percent, reduced the excess profits credit in several brackets for invested capital, and repealed the earned income credit for individuals.

In January 1944, in his annual budget message to Congress, President Roosevelt stressed the need for tax simplification. This resulted in the Individual Income Tax Act of 1944, making personal exemptions uniform at \$500 and replacing the Victory Tax with a 3 percent tax on net income. It also provided for a standard deduction of 10 percent. The new law allowed taxpayers with limited incomes to file their withholding receipts as tax returns, eliminating the need for many people to file separate tax forms.

The Intelligence Unit in Washington, D.C. assumed many added responsibilities during the war, especially in connection with

Near the end of World War II, a parade down Market Street welcomed home the heroes of Bataan on March 12, 1945.



the Treasury Department's Foreign Funds Control Unit. In 1942, President Roosevelt sent his congratulations to Unit Chief Elmer Irey, declaring, "As the years have gone by, the Intelligence Unit has become a shining mark not only of incorruptibility but what is just as important, of A-1 efficiency. I know how much quiet pride you have in the reputation of the unit. I am taking this opportunity to let you know I share in that pride."

In 1945, President Roosevelt died, the war ended, and President Harry Truman signed a \$9 billion relief bill cutting both individual and corporate tax rates. Ultimately, this relieved 12 million people from the requirement to pay income taxes.

Also in 1945, James G. Smyth succeeded Collector Berliner. Smyth's former secretary, Emily Ottoboni recalled, "He had been a professor at the University of San Francisco. He taught English and literature. He was an intellectual...not very business oriented. He left most of the running of the office to [Deputy Collector] Nickell and the other chief deputies."

Things changed quickly after the war. Ray Harless joined the Office of the Internal Revenue Agent-In-Charge, which was undergoing significant expansion. In 1946, revenue agents assigned to the District were located in the Call Building at 74 New Montgomery Street, directly behind the Sheraton Palace Hotel. The agents later moved to 100 McAllister Street.

Harless remembered the working conditions, "It was a bare bones office and the revenue agents would have from 4 to 16 people in the room. Most revenue agents worked very independently. They'd come and go and they basically spent their working time outside the office at

the location of the taxpayer or the taxpayer's representative."

In the spring of 1948, despite President Truman's veto, Congress passed another tax cut, amounting to \$4.8 billion. The Revenue Act of 1948 also increased the individual exemption to \$600 and allowed married couples to file joint returns.

The Internal Revenue operation was hurting. The Bureau had taken on many responsibilities during the war, yet had not recovered its pre-war momentum. There was a growing backlog of returns to be processed, and it took a year or more for tax refunds to be paid. In addition, audits of corporate and excess profits taxes were at least two years behind. Something had to be done.

In 1949, an audit control program was started and records began to be transferred to microfilm. In some parts of the country, keypunch equipment began to be used to process tax notices, but the technology to implement a modern, streamlined automatic data processing operation was still many years away.

Scandals, Reform and Reorganization

As the new decade began, rumors of corrupt or illegal activities in Collector's Offices across the country began to circulate. San Francisco was no exception. Persistent allegations sparked in-depth Congressional investigations of collection operations and related revenue operations in 1951 and 1952.

The Subcommittee on Administration of the Internal Revenue Laws of the House Committee on Ways and Means spearheaded this effort. In San Francisco, Chief Assistant United States Attorney Robert B. McMillan headed the tax probe.

From the outset, it was apparent that the 64 politically-appointed Collectors around the country had a great amount of power vested in them. Although the Collectors remained political appointees, deputy collectors had been converted to the civil service system in 1942. By the end of 1951, 113 Bureau of Internal Revenue employees, including six collectors were forced to resign or were ousted on charges of inefficiency, misconduct, bribery, and defrauding the government. Collector Smyth was one of the six ousted collectors.

Former Special Agent Richard Nossen was hired by the San Francisco Collector's Office during one of the Bureau's major personnel expansion efforts following World War II. Nossen recalled being shocked at the level of political

influence in the Bureau of Internal Revenue during these years. "They were very, very politically oriented. [Collectors] were accepting favors from taxpayers, leaking confidential information, destroying tax returns. I was very disillusioned," he said.

The investigations became front page news in California after May 16, 1951, a day that became known as "Wild Wednesday", marking the beginning of the official investigation of the San Francisco office of the Bureau of Internal Revenue. Assistant U.S. Attorney Charles O'Gara had outlined 15 instances of irregularities in Collector Smyth's office before a grand jury.

The First California Collection District originally came under fire in late 1950 when the California State Commission on Organized Crime issued a report charging Smyth's office with laxity in prosecuting known racketeers for income tax evasion. During the course of the investigation, allegations of failure to file income tax returns were lodged against Internal Revenue employees from coast to coast.

The scandal was so widespread and intense that President Truman became involved. On September 27, 1951, San Francisco newspapers reported that the President had suspended Collector Smyth and six of his assistants.

While Smyth was under investigation, Pittsburgh Collector Charles Masarik was sent to San Francisco to



assist with the proceedings and run the District. While there, Masarik was responsible for heading an audit of all First District operations, working with a team of supervisors recruited in Washington and sent to the field.

Emily Ottoboni, who served as secretary to six San Francisco Collectors and Directors, including Smyth, remembered, "They had a tremendous volume of material, evidence, and records. They were doing an audit of the office from top to bottom. Work had to go on. People's desks were searched....People were worried and concerned. Mr. Masarik dictated weekly reports to the Commissioner. Everything was examined....There was a lot of turmoil in the office, with a lot of

reporters coming in. It was such a terrible thing."

Another former employee recalled, "There was a Federal Grand Jury. Subpoenas were issued. Employees were told they had to answer subpoenas or be fired. It was a very terrible period. But work had to go on. The public still expected to be served. It was a very unhappy period. Many persons were ill over it."

After an extensive investigation, President Truman fired Collector Smyth on November 29, 1951, "for failure to manage his office properly." Five others from the First District were fired, along with 24 more on that day.

In December 1951, Smyth was indicted on charges of conspiracy and tax irregularities. In the First



Officials of the San Francisco District gather together for a special occasion.

express my appreciation for the splendid work that you have done during the past six months. I firmly believe that you are on the right road and if you stay on this road you will not fail in making this an office of which the taxpayers...will be justly proud."

This unhappy episode in the history of the Bureau of Internal Revenue sparked one of the most widespread and thorough reorganizations and reforms undertaken by a government agency.

It marked the end of the political patronage system, and the beginning of the age of the modern career tax professional, and ultimately, the birth of the Internal Revenue Service as we know it today.

On January 14, 1952, President Truman submitted a sweeping reorganization plan for the Bureau of Internal Revenue to Congress. In doing so, Truman noted, "All of us have a right to insist that the Bureau of Internal Revenue be provided with the finest organization that can be devised. All of us are entitled to have that organization manned by personnel who get their jobs and keep them solely because of their own integrity and competence. This reorganization plan will be a major step in achieving those objectives."

Approved by Congress on March 14, 1952, this plan, known as Reorganization Plan No. 1, abolished all appointive offices in the Bureau, with the exception of the Commissioner. This eliminated political appointments and placed key positions under the civil service system, making the Bureau of Internal Revenue almost totally a career government organization.

District, a total of ten employees were indicted, two of whom were convicted of embezzlement and removal and destruction of official records.

A Congressional Committee headed by California Representative Cecil R. King conducted a series of hearings on the troubles in the San Francisco office in mid-February 1952, concluding that the Collector's Office had been "badly administered by grossly incompetent political appointees."

Despite the negative publicity that inevitably surrounded these events, Acting Collector Masarik did his best to encourage San Francisco employees to retain their integrity and faith in the system. In a letter to all employees at the end of March 1952, Masarik stated, "I wish to

Few other federal agencies are structured this way, with the agency head as the only political appointee.

The reorganization plan also altered the operational organization of the Bureau from a structure based upon the type of tax collected, i.e., income tax, excise tax, employment tax, etc. to a structure based on purpose or function. This resulted in the establishment of a Collection Division, an Audit Division, and an Appellate Division, each handling all types of tax returns.

In the field, 64 District Offices were set up in the same geographic locations as the former Collectors' Offices. The Offices of Collector, Revenue Agents-in-Charge, and Special Agents became part of the new District Offices, headed by a District Director. The District Directors, in turn, reported to newly-established supervisory Regional Offices, each headed by a Regional Commissioner who had jurisdiction over tax administration and enforcement matters in his geographic area.

The reorganization also created an Inspection Service within the Bureau of Internal Revenue completely independent of the operating activities of the Bureau, with a direct line of control from the Commissioner through the Assistant Commissioner (Inspection) to its field offices. In other words, Inspection personnel in Internal Revenue field offices reported directly to the National Office in Washington rather than to local authorities.

While the investigations of the Bureau of Internal Revenue were underway as the 1950s began, the employees of the San Francisco District continued to develop important tax cases. One of the

more noteworthy cases involved a powerful lobbyist for the California liquor industry named Artie Samish.

Group supervisor of the San Francisco Intelligence Division Jack Wilks, along with Special Agent Charles Kisthardt, spearheaded the investigation. Other District special and revenue agents assisted Wilks and Kisthardt, including Albert Moore, Lynn Harkness, Errol Cropsey and Theodore Anselmo.

Many California newspapers in the 1940s and early 1950s reported that Samish could get anything he wanted from the California legislature. In fact, the cover of the August 13, 1949 issue of *Colliers* magazine, a popular national publication, depicted Samish as a ventriloquist with the California legislature portrayed as a dummy sitting cozily on his knee.

The magazine referred to Samish as "the secret boss of California." When former Chief Justice Earl Warren was Governor of California, he remarked that Samish "has more power than the Governor."

The *Colliers* article went on to explain that Samish's power base lay within the industries that hired him, including the holders of licenses and permits to sell liquor, the growers of barley and hops, and the truckers who transported the goods. At Samish's request, these businessmen had cooperated in establishing a "Brewer's Institute," which coordinated the payment of a 5 cents per barrel fund designated for unrestricted "public relations use" by Samish.

Samish's troubles with Internal Revenue began when a Congressional committee headed by Senator Estes Kefauver began a nationwide investigation of crime and called Samish to testify.



Special Agent Richard Nossen receives congratulations from District Director Joseph Cullen in 1957 for his work in developing a Special Agents' training program. C.L. Krause, Chief of the Intelligence Division looks on.

According to news reports, Samish brought with him self-serving documents and repeatedly interrupted Kefauver. As a result, Kefauver decided what the country needed was an investigation of Samish.

Shortly after his appearance before Kefauver's committee, Wilks was assigned the Samish case. Wilks recalled that Samish could be intimidating—he weighed 360 pounds and referred to him as “Brother Wilks”. As described in the *San Francisco News* several years after the case was resolved, “For two and one-half disconcerting, tenacious years, Wilks and Kisthardt toiled to trace the evidence that showed Samish as an income tax violator.”

Ultimately, their hard work paid off. In November 1953, Samish was indicted on eight counts of tax evasion for dodging an estimated \$71,000 in income tax between 1946 and 1951, primarily on money from the Brewer's Institute. Samish was

sentenced to three years in prison and fined \$40,000.

Wilks noted that during the Samish case, “the public was fully behind us.” He felt that this case helped to restore the reputation of the San Francisco District, which had been tarnished during the scandals of the early 1950s.

Also helping to demonstrate the District's mettle was Special Agent Richard Nossen, who had joined the Intelligence Division in 1950. Nossen was assigned several cases, including one involving a major San Francisco law firm.

As a result of Nossen's successful investigation, a prominent attorney named Vincent Hallinan served time in prison on tax evasion in what Nossen recalled as one of the most comprehensive net worth cases he had seen. The conviction of Hallinan was front page news in the San Francisco papers, showing off the San Francisco District operation at its best.



The first individual to hold the title of Director of the San Francisco District was Glenn T. Jamison, pictured front row center in this group photo of IRS officials from the Western Region and the San Francisco District.

On July 9, 1953, the official name of the Bureau of Internal Revenue was changed to the Internal Revenue Service and in 1954 Congress approved a complete revision of the Internal Revenue Code. The completely revised tax code formed the basis for the nation's tax system for over 30 years, until its next major revision in 1986.

Following the replacement of Collectors' operations throughout the country with the modern District Office structure, the first individual to hold the title "Director" for the San Francisco District was Glenn T. Jamison, who served from 1951-1955. Jamison had been Chief of the Intelligence Division in Kansas City before moving to California.

After nearly four years as San Francisco Director, Jamison was succeeded by Harold Hawkins, who stayed on from 1955-1957, and later became Regional Commissioner for the Western Region of the IRS. During Hawkin's tenure, the

National Office initiated a Blue Ribbon Program to recruit college graduates into the IRS and upgrade training through the entire Service.

In August 1957, former Revenue Agent Joseph Cullen became the 25th person to run the San Francisco District. Cullen remained in this position for 13 years, the longest time served by any District Director or Collector.

The Dawn of Automation and Equal Opportunity

On June 1, 1964, the San Francisco District moved from 100 McAllister Street to a new Federal Building at 450 Golden Gate Avenue. The District employee newsletter, *The Cablegram*, reported, "The building is completely modern, air conditioned, with escalators to the fourth floor and high speed elevators to all floors."

The building was designed to house 54 government agencies scattered throughout the San Francisco area, with a total of 923,000 square feet. In the early 1960s, the building was the fifth largest in the United States and the largest west of the Mississippi.

Revenue Officer Clyde Diehl recalled working conditions as the IRS entered the 1960s. "There were no computers, no service centers, so everything was done here for the District of Northern California. Returns were kept here and processed here. There was a Returns & Receipts Branch and an Adjustments Branch. Everything was done manually."

Political currents of these years did not leave IRS employees unaffected. As the Cold War peaked in the early 1960s, employees were provided instructions to follow for "Post Attack Registration."

The April 1962 issue of *The Cablegram* explained, "If you are prevented from going to your regular place of work because of enemy attack...go to the nearest Post Office

and ask the Postmaster for a federal employee registration card, fill it out, and return it to him...You should obtain and complete the registration card as soon as possible after enemy attack, but not until you are reasonably sure where you will be staying for a few days."

Field employees of the San Francisco District who worked in Oakland were occasionally disrupted by protesters because the draft board was located in the same building. Such events continued through the 1960s and into the 1970s.

Virginia Haas remembered that thousands of protestors surrounded the federal building during the trial of Huey Newton in the early 1970s and at one point all female employees were sent home. Georgia Parrott also recalled numerous sit-ins and sleep-ins at the federal building as well as red coloring being poured in the fountains.

Despite such turmoil, it was during the 1960s that the processing capabilities of the IRS were dramatically upgraded with the advent of modern technology, referred to as automatic data processing (ADP). The dawning of the modern computer age gave the IRS the capability for the first time to automate and centralize the processing of tax returns.

The automation process began as a pilot operation in selected IRS offices in the late 1950s. With the 1961 dedication of the National Computer Center in Martinsburg,

West Virginia, automation became available on a nationwide level. The Computer Center served as the central hub for the entire ADP system. The component of the automated systems that had the most dramatic and immediate impact on district operations was the advent of the service center concept.

The service centers envisioned by the IRS were centralized locations where taxpayers would mail returns for processing. Thus, work that had traditionally been performed in IRS district offices involving the processing of tax returns would be shifted to these new organizations in a phased schedule through the 1960s.

The dramatic growth in the tax system in the post-World War II years demanded that the IRS take advantage of the savings in time and personnel offered by the arrival of computers in the business world. By 1965, over 100 million tax returns were being filed nationally every year, yet the IRS work force had simply not expanded enough to keep up with the laborious manual processing of the ever-growing number of tax returns.

By 1960, the IRS had set up service centers in three cities: Kansas City, Missouri; Lawrence, Massachusetts; and Ogden, Utah. It was recognized early in this transition period that the arrival of ADP systems would eliminate many jobs as well as require the transfer of many employees to the new centralized service centers.

To assist district offices through the transition, the IRS National Office in Washington, D.C. developed detailed "redeployment" plans. The greatest impact in San Francisco was in the Revenue Accounting Branch and the Receiving, Mailing, and Processing



An employee dressed as a 1940 income tax return welcomes workers to their new home in the Federal building.

Section of the Returns and Receipts Branch. The October 1962 issue of *The Cablegram* informed workers, "It is urged that those affected do everything possible to meet qualification standards for positions in activities converted to ADP."

In addition to providing additional training opportunities for affected employees, the San Francisco District achieved as much drawdown in employee levels as possible through normal attrition. By July 1965, *The Cablegram* reported that the San Francisco District was well ahead of the rest of the Western Region in personnel planning, citing the presence of 150 temporary employees filling positions vacated by permanent employees.

In addition to allowing for normal retirements and other departures, the San Francisco District made strong efforts to fill other vacancies through-

out the organization with employees who faced losing their positions. Georgia Parrott was one of the affected employees. She recalled that District management "started talking to employees, finding out if they wanted to go to Ogden...and offering them positions. I was going to lose my job as a branch secretary." Parrott, along with many other District employees, used this as an opportunity to enter a new career field.

By mid-1969, the redeployment of personnel in the tax return processing structure of the San Francisco District was complete. The number of employees involved in processing work at the District was reduced from 425 to 37 permanent positions during this period.

The volume of returns continued to grow and automation continued to improve. By 1990 a total of ten service centers nationwide processed twice the number of returns received by the IRS in 1965. In 1971, the Fresno Service Center in California was the last of the ten service centers to open. The returns formerly processed manually in the San Francisco District were now

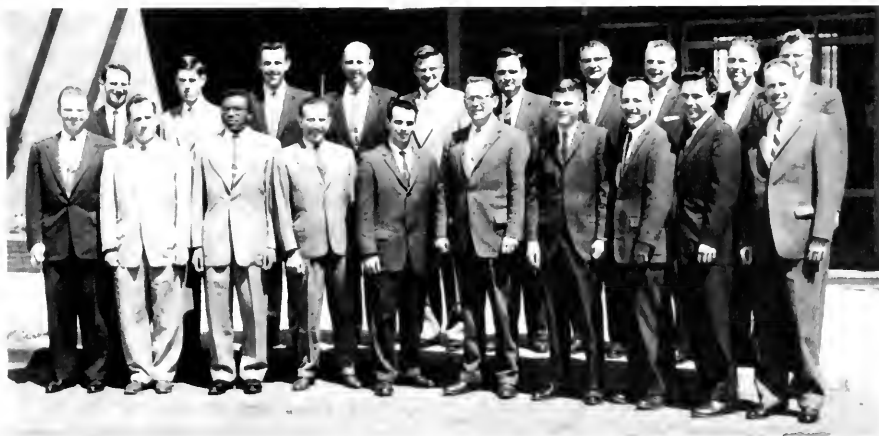
sent directly by the taxpayer to either the Ogden or the Fresno Service Center for processing.

It was during this era that professional status and standards became the accepted measure for revenue agents, replacing work quotas used before the reforms of the 1950s. The audit program was enlarged and taxpayer service received greater emphasis, including expanded telephone assistance and other taxpayer information and education programs.

In the 1960s and 1970s, women began to enter the revenue agent, revenue officer, and special agent career fields in greater numbers. According to Marilyn Soulsburg, a Collection Division Chief for the San Francisco District in the 1980s, "In the sixties there weren't any women [in Collection]. This Division now has more women and minorities than others. It is unique to San Francisco [because] we live in a multi-cultural city."

Former Labor Relations Manager John Moore remembered, "In the 1960s, the Service was predominantly white and male. It was an accountant's version of the FBI. Women in

A typical graduating class of revenue agents for the San Francisco District in the 1960s.





District Director Joseph Cullen is pictured at the far left of the back row this photo taken during the visit of IRS Commissioner Randolph Throer, pictured front row center. To Cullen's right are Regional Commissioner Homer Croasman and Assistant District Director Charles Kingman. On Throer's left is Genevieve Young, secretary to Cullen and on his right is Georgia Parrott, secretary to Kingman.

professional jobs were restricted to office jobs. It was thought much too dangerous for them to go outside."

Former District Public Affairs Officer Frank Busalacchi recalled that when he entered the IRS in 1960, there "were very few women revenue officers...and no women managers in collection." He explained that the few women in these positions in the early 1960s were individuals hired during World War II who were now close to retirement.

Even as women entered the work force, it took years for them to begin the rise to managerial and supervisory positions. In 1974, *The Cablegram* noted that Nancy Reller, one of only two female special agents in the San Francisco District, had graduated

above her male classmates in all three special agent training schools in the past year. Eight years later, *The Cablegram* noted that the same Nancy Reller had been selected as the first female manager in the Criminal Investigation Division of the San Francisco District.

San Francisco in these years was in many ways representative of society as a whole. John Moore, then a Revenue Officer, recalled, "The atmosphere here was very conservative. The idea was to mimic the people you were dealing with, dress appropriately, and have the same values." Men were required to wear hats, white shirts, dark suits, and ties. It was unthinkable for women to even suggest wearing slacks.

Revenue Agent Phil Smith remembered an occasion in the 1960s when a fellow agent "was actually sent home for wearing a two-piece suit, instead of a three-piece suit. It was the equivalent of my shaving my head bald today."

Busalacchi recalled the early sixties in the Service as a striking period of change. It was a period when the "old-timers," those individuals hired in the depression years, who took the job for its security, began to work with the new breed of college-educated career revenue agents, brought in through the Blue Ribbon program and other recruitment efforts. The contrast of work attitudes and work styles was dramatic.

These were also years in which equal opportunity became an increasingly important issue in the federal government. In May 1966, IRS Commissioner Sheldon Cohen issued a notice directing all offices to collect "information on minority group employees...to ensure that all actions affecting employees are taken on the basis of merit alone without regard to race or national origin."

In 1967, the San Francisco District formally joined this effort by creating an EEO Coordinator position on a part-time basis to assist in recruiting minority candidates into the IRS. It was not until 1982 that a full-time EEO Specialist position was created in the District.

As the tax system became more complex, the IRS responded with new and expanded programs to aid the taxpayer and improve its tax return processing operations. In the 1970s, the IRS initiated a Problem Resolution Program, in an effort to shorten the time it took to resolve taxpayers' problems not successfully resolved through regular channels. The San Francisco District, along

with all other IRS field organizations, joined in this new program by establishing its own Problem Resolution Program on a local level.

By 1979, Problem Resolution Officers were based in every District Office and Service Center throughout the country. In that same year, a position for a Taxpayer Ombudsman was established in the Commissioner's Office in Washington, D.C. to serve as the taxpayer's advocate within the IRS.

The 1970s also marked outstanding contributions by the San Francisco District's Narcotics Task Force. The Narcotics Traffickers' Project began in 1971 in response to President Nixon's expanded drug enforcement program. A total of eight Narcotics Task Forces were formed nationwide in the IRS.

In San Francisco, the Examination Division organized a field group which concentrated on conducting tax investigations of middle and upper echelon narcotics traffickers. The operation grew from eight to sixteen revenue agents in five locations within the San Francisco District's jurisdiction from 1971 to 1974.

Heading the group was former Revenue Agent Group Manager Dave Robins who recalled, "The thing that was unique for IRS was that we worked with Intelligence [now Criminal Investigation], which has control of criminal cases. We were physically located with the Intelligence group—that's the first time this has ever been done. We used to coordinate very closely with the Drug Enforcement Agency (DEA), which at that time was called BNDD, Bureau of Narcotics and Dangerous Drugs. We also worked closely with state narcotics enforcement groups. It was a very closely coordinated effort."





The National President of the National Association of Internal Revenue Employees, Vincent L. Connery, stands with Nick Nichols, President of local San Francisco Chapter 20 outside the new offices of the Union.

From 1970 to 1972, Ray Harless served as Director of the San Francisco District. Harless went on to become Deputy Commissioner of the IRS in Washington, D.C., the highest non-political position in the agency and the highest position any director of the San Francisco District has reached in the IRS.

The 1970s were a period in which union activity throughout the IRS and the federal government became more institutionalized. Resources Management Division Chief Ray Morris recalled that in 1972 former Revenue Agent Nick Nichols became the first full-time, paid president in the history of the union. "He took the union from a social club and turned it into an aggressive union," according to Morris.

Nichols outlined the development of the San Francisco union over the years, recalling that when he joined the IRS in the 1940s, "There was no right for a union to exist, but associations could exist...At the time, people felt they were lucky to have a job....There

was no appeal, no grievances, no system at all to appeal anything."

On September 19, 1942, San Francisco Local Chapter 20 of the five-year-old National Association of Internal Revenue Employees (NAIRE) was formed. It was not until 1962, when President Kennedy issued an Executive Order providing unions with the right to negotiate contracts on working conditions for all federal agencies that the union emerged as a more powerful force in the IRS.

Although NAIRE tried to negotiate issues from a national perspective during these years, the IRS required the union to negotiate issues district by district. On June 11, 1963, NAIRE Chapter 20 was successful in winning the right to serve as the exclusive bargaining agent for employees of the San Francisco District in a general election.

In 1972, the first National Agreement was signed, which included the right for employees to file grievances and arbitrate on a limited basis. At the national convention of the union held in San Francisco in 1973, the name of the organization was officially changed from NAIRE to the National Treasury Employees Union (NTEU).

On June 19, 1972, Charles Kingman, a former Assistant District Director, was sworn in as the new Director. After barely one year in office, Kingman retired in July 1973, completing 32 years of work with the IRS.

It was during Kingman's tenure that the innovative San Jose office was launched. This new office complex featured modern concepts of open landscaping, interiors decorated with plants, and a background noise of "white sound". Visitors came from around the country to

view this office. However, the office was designed to hold only 120 people and, ultimately fell prey to overcrowding which diminished the modern features it had been designed to promote.

In 1973 and 1974, Cornelius (Connie) Coleman served as Acting Director for the District. In 1974, Frank Browitt succeeded Coleman as District Director. It was during these years that the Nixon administration's Economic Stabilization Program became part of the IRS enforcement program. Given this additional responsibility because of its expertise in investigating financial issues, the IRS established Economic Stabilization offices around the country beginning in 1972.

The work of the Economic Stabilization Program in the San Francisco District in the early 1970s garnered many headlines in the local newspapers. In one case, a major story reported that the eighth largest food retailer in the country, Lucky Stores, Inc., had agreed to reduce prices on its products after a detailed investigation by the IRS which revealed that prices had been increased without cost justification.

Another interesting event of this era involved Revenue Agent Gene Neri who was held hostage by a disgruntled taxpayer in the Stockton post of duty of the San Francisco District. For three hours, Neri was held on the first floor of the federal building at 401 N. San Joaquin Street in Stockton by the taxpayer, armed with a gun and eight sticks of dynamite. Eventually the taxpayer surrendered and Neri was released unharmed.

In February 1978, Michael Sassi became the new District Director. It was during Sassi's administration that the District took some major

steps forward in equal opportunity and labor-management relations. Revenue Officer Joyce Beasley said, "When Mike Sassi was here I saw some positive changes. Sassi worked with AIM [Association for the Improvement of Minorities] members and with black organizations."

Sassi summed up his goals by stating, "I had a plan to get the District operationally effective. We had excellent people in the San Francisco District. As a result, many of the people became managers throughout the region and throughout the country...we were able to develop managers and executives for the entire country." Among Sassi's achievements were the selection of the first female division chief in the District and formation of the first Director's Advisory Committee, a group composed of outside tax practitioners and IRS representatives to facilitate communication through quarterly meetings.



Meeting the Challenges of the Future

In the 1980s, the IRS continued to develop its ADP operations and emphasized the need to streamline the entire tax system. In 1982, the Service developed a national Strategic Business Plan to provide a framework for formulating both short and long-term goals and objectives to accomplish the goals of the IRS. One of the areas that received emphasis during the 1980s was a commitment to quality products and quality service.

Dave Robins, the first Quality Improvement Manager for the Western Region, noted that he had witnessed significant changes during his 20 years in the IRS. "We [used to be] a very production-oriented operation. Quality of audits didn't seem to matter, or whether you were right or wrong....If you closed a lot of cases with changes, and the changes you got were big, you were a success. It was a numbers game....The change started in the early 1980s due to a new era of managers and a...difference in attitude. There was a change in the way people looked at things—they looked behind the numbers [and realized] the numbers are an indicator, they aren't the answer."

In the early 1980s, the two huge IRS districts in California came under close scrutiny by the National

Office. According to Busalacchi, the size of the California districts made them appear unmanageable to many in the IRS. For a more detailed analysis of this issue, the Assistant Director of the Los Angeles District, Jesse Cota, headed a study effort known as the "District Boundaries Study."

As a result of this effort, the IRS decided to institute a "redistricting" program in California to reduce the span of control of the two existing districts and create districts of more effective size. Projections of population growth, returns filing patterns, and the current workloads of the San Francisco and Los Angeles Districts were major factors leading the IRS in its decision-making.

It was widely felt among IRS management that California would need at least three or four districts in the 1980s, with the number increasing to five by the year 2000. In response, IRS Commissioner Roscoe Egger asked why the Service should wait another 15 or 20 years to create additional districts. In the end, the National Office decided that California would have five districts before the year 2000.

On Monday, March 28, 1983, the Secretary of the Treasury signed an order establishing new district offices in Sacramento, San Jose, and Laguna Niguel, in addition to retaining the existing districts in San Francisco and Los Angeles.

After over 120 years of change,

The federal building at 450 Golden Gate Avenue has been home to the San Francisco district since 1964.



The positive results of an active equal employment opportunity program are evident here through the diversity of the workforce in this 1990 photo of the Executive Staff of the San Francisco District.

the San Francisco District returned to just about its original size when it was established in 1862. After years of being responsible for all tax matters in the northern half of California, the new San Francisco District was left with only San Francisco, San Mateo, and Alameda counties.

Although the size and operations of the San Francisco District changed as it made the transition to a five district configuration, it continued to serve as a "specialty district," with key responsibility over a wide geographical area for several different programs, such as the toll-free taxpayer service telephone system, the Automated Collection System, the engineering program, the International Examination Program, the Drug Task Force Program and the Quality Assurance Program.

A major event of the decade for the San Francisco District was the opening of the Automated Collection System (ACS) operation in Oakland on March 5, 1984. The second largest facility of its kind in the country, this

ACS call site automated much of the collection process. Prior to installation of this system, local collection offices were often inundated with thousands of delinquency investigations and accounts managed only in paper form.

The ACS call site automated the second step of the collection process, in which delinquent taxpayers are notified by telephone of action planned by the IRS. In announcing the system, Director Sassi described it as "a revolutionary new computer-assisted telephone collection system in northern California."

The 1980s also marked a period of intensified concentration on the needs of employees. The Resources Management Division concentrated on promoting employee growth and development. The District examined key issues concerning equal opportunity and career development which led to improved methods of training and new awards programs.

On November 17, 1988, a new District Training Center opened as part of the local effort to upgrade the working and learning environment. The center included a com-

puter laboratory, automated training systems, four large classrooms, and room for over 250 students. Nationwide, this era also saw the beginnings of the Quality Improvement Process.

In the early 1980s, the IRS began to examine the quality improvement theories used in Japan. Quality circles were introduced in 1983, and the following year internal recommendations helped lay the groundwork for the development of the IRS Quality Improvement Process.

Also influencing this development were changing technologies, negative publicity from the 1985 filing season in which new computers installed at IRS service centers created unforeseen delays in processing returns and refunds, and increasingly higher standards of service delivery in the private sector.

The basic Quality Principles endorsed by the IRS in the late 1980s included establishing a climate where quality is first among equals with schedule and cost; emphasizing product and service quality by eliminating systemic flaws during the planning, implementation and operational processes; improving responsiveness to the public and other Service components; installing a quality improvement process in every field and National Office organization; and developing evaluation systems consistent with and reflective of the quality principles.

Following the retirement of Sassi on November 1, 1985, Frank Miceli moved from his position as Director of the Portsmouth District in New Hampshire to become Director of the San Francisco District in February 1986. While in New Hampshire, Miceli had become an early advocate for the IRS quality

process. He brought this commitment to San Francisco where he continued to implement and develop the quality process.

To this day, the San Francisco District is recognized for its early involvement and leadership in the quality process. The first meeting of what was initially known as the San Francisco Quality Improvement Process (QIP) Steering Committee was held on September 24, 1986. This group eventually evolved into the Director's Quality Council, and finally, the IRS-NTEU Joint Quality Council.

In 1987, Miceli chaired the National Quality Leadership Task Force which put together a quality leadership course that would serve as the launching pad for the IRS-wide effort. Subsequently, over 14,000 IRS managers and union officials received quality leadership training based on this course. Summing up the activity in the quality arena, Miceli stated, "The IRS is going through a period of dramatic change and the issue of quality is the engine behind that change."

In October 1987, the IRS National Office and the National Treasury Employees Union (NTEU) signed a Joint Quality Improvement Process agreement. This national agreement marked a first in federal employee-management relations and was endorsed by both the union and management of the San Francisco District.

Nick Nichols, NTEU Chapter President in the San Francisco District, observed, "It is my belief that the Quality Improvement Process holds many potential benefits for IRS.... The use of consensus decision-making on teams encourages better listening, sharing of informa-

tion, and discussion as equals."

In an employee newsletter Director Miceli noted, "Quality improvement opens doors. Problems are transformed into challenges and opportunities to improve. 'Good' becomes 'better' and 'better' becomes 'best.' Quality improvement encourages innovative thinking and improved customer service."

According to Assistant District Director Charles Gilbert, "Improved quality is an organizational process.... Government managers can be as competent or more competent as [managers] in the private sector. I like to think we're all in the same league."

In San Francisco, some 20 Quality Improvement Project (QIP) teams were set up to study critical IRS programs and evaluate methods of improving operations. One project, "One-Stop Account Service", proved so successful that it garnered front-page notice in the *Wall Street Journal* and national recognition by the Office of Management and Budget and the President's Council on Management Improvement.

The San Francisco District also took advantage of the advances offered by computer technology in the 1980s. In 1981, the District brought in an individual to manage its fledgling computerized case processing operation. Using IBM personal computers and Zylog minicomputers, Joe Stack, a former group manager from the Examination Division, and two other employees designed the 30-90 Day Program, which proved so successful that it became a nationwide IRS program used to automate tax notices previously processed manually.

When the San Francisco District formed a new Information Systems Division out of its computer opera-

tions, Stack headed it up. According to Stack, "The District has come a long way in five years. I've been fortunate in having a lot of people who work extremely hard to make this District better. Communication is the key to doing a quality job."

The 1987 IRS Annual Report stated that in the past year the IRS processed "record numbers of tax returns, collected record amounts of tax and continued to enforce the tax laws. [The Service was] responsible for implementing the Tax Reform Act of 1986, legislation that fundamentally changed our tax system."

IRS Commissioner Lawrence Gibbs commented, "The Tax Reform Act of 1986 effectively halted the proliferation of abusive tax shelters." To spread the news, and explain this new tax legislation, the San Francisco District set up a Speakers Bureau, which got the word out in over 700 presentations to taxpayer groups.

The IRS also celebrated its 125th anniversary in 1987, with special exhibits and ceremonies in Washington, D.C. and throughout the country, including San Francisco. The anniversary led to the effort to trace the history of the San Francisco District.

From a staff of eight in 1862, the San Francisco District grew to over 1,600 employees by 1990, providing taxpayer assistance and enforcement of internal revenue laws for an annual filing population of 2.7 million tax returns, generating tax revenues of \$20 billion.

As the IRS heads toward the 21st century, the relationship between the tax collecting agency and taxpayers is beginning to change dramatically. Recent legislation brought a "Taxpayers' Bill of Rights."

Change is also making an impact

on internal IRS operations. Quality Assurance Division Chief Tom Wilson observed, "As employees get more involved in the decision-making process, there will be more change. There will be much more of a participative environment."

Advances continue to be made in the employment of women and minorities in management positions. Assistant District Public Affairs Officer Lila Bardellini-Gaetjens noted, "The Federal Women's Program started in 1971. Its objective was to be sure women are well-represented in each category. This has changed for the better. Women now have equal opportunity."

The San Francisco District has come a long way since 1862. It has, over the years, reflected the times and changed with them. It has been the home of visionaries and pragmatists, dreamers and doers.

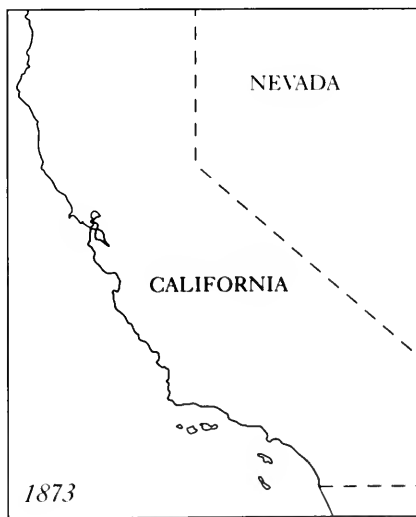
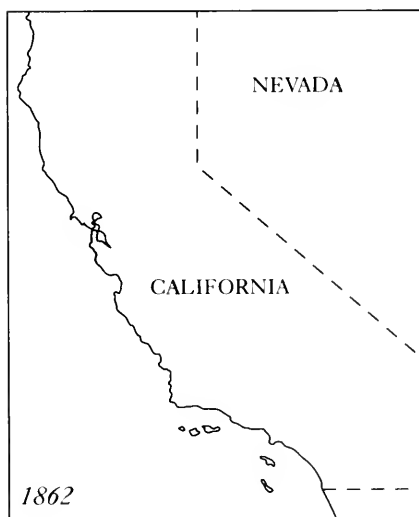
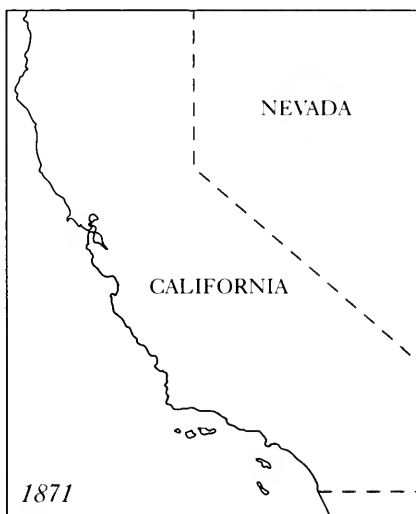
The history of the District does not end here. As Director Miceli observed, "The challenge is to maintain the core values, such as integrity, with freedom of revision to meet new conditions. Ultimately, the only organizations that survive are those that combine a respect for their own traditions with an openness to change."

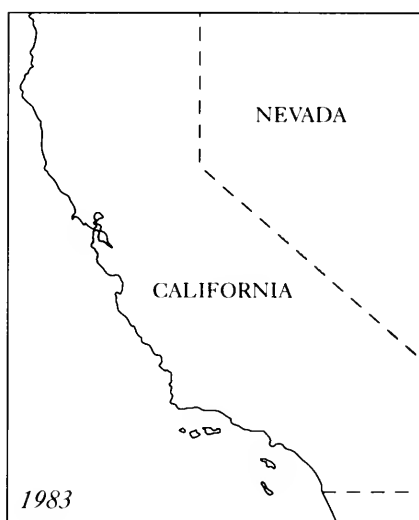
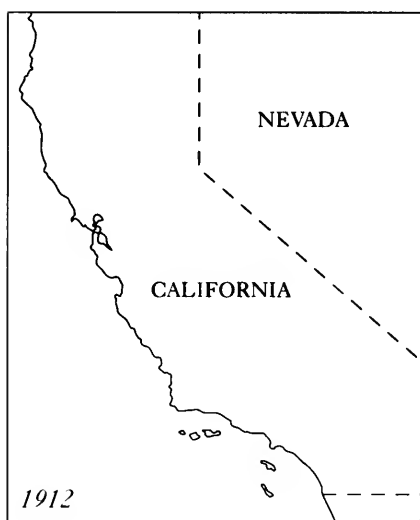
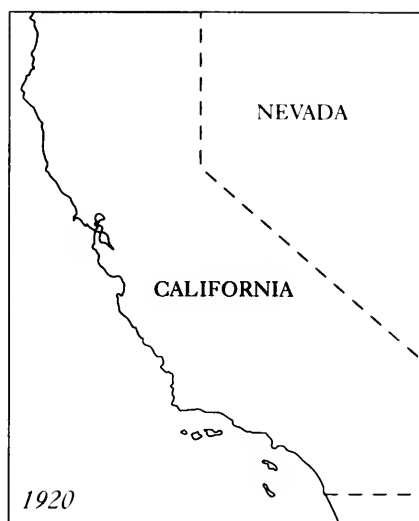
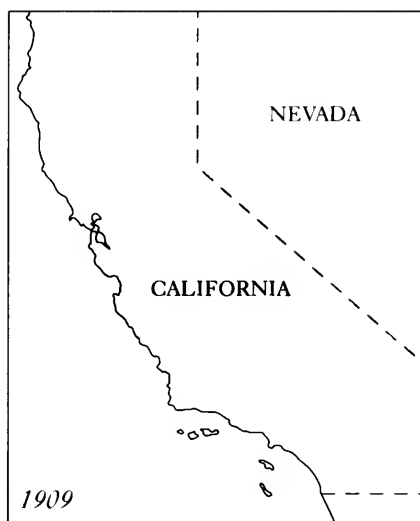
Appendix 1: San Francisco Directors and Collectors

<i>Collector/Director</i>	<i>Dates in Office</i>	<i>Collector/Director</i>	<i>Dates in office</i>
William Y. Patch	1862-1865	James G. Smyth	1945-1951
Franklin Soulé	1865-1869	Glenn T. Jamison	1951-1955
James Coey <i>(one day)</i>	1869	Harold Hawkins	1955-1957
Jared O. Rawlins <i>(died in office)</i>	1869	Joseph Cullen	1957-1970
George Oulton	1870-1871	Raymond Harless	1970-1972
Luther Cary	1871-1873	Charles Kingman	1972-1973
John Sedgwick	1873-1876	Frank Browitt	1974-1978
William Higby	1877-1880	Michael Sassi	1978-1985
Chancellor Hartson	1880-1885	Frank Miceli	1985-
Asa Ellis	1885-1890		
William H. Sears <i>(died in office)</i>	1890-1891		
John C. Quinn	1891-1893		
Osca M. Welburn	1893-1897		
John C. Lynch	1897-1907		
August Muentert	1907-1912		
Joseph J. Scott	1913-1917		
Justus S. Wardell	1917-1921		
John P. McLaughlin	1921-1933		
John V. Lewis	1933-1938		
Clifford Anglim	1938-1942		
Harold Berliner	1943-1945		

Appendix 2: The Geography of the San Francisco District

Over the years, the size and shape of what is now known as the San Francisco District of the Internal Revenue Service has changed many times. The following maps illustrate these changes and dramatically depict the District's growth from a small beginning in 1862 to an organization of tremendous size by the early twentieth century, followed by a return to a small geographic area in the 1980s.





A Note on Sources

The preparation of this history of the San Francisco District of the Internal Revenue Service relied on a variety of source materials to document the change and evolution of this organization through its nearly 130 year existence.

Unfortunately, documentary sources pertaining to the organizational development, policy decisions, and other key aspects of the Internal Revenue Service on both a national and a local level are somewhat scarce. This lack of documentation forces the researcher to rely heavily on secondary sources and, for more recent times, personal interviews with participants in events.

Internal sources used to document this history include the Annual Reports of the Commissioner of Internal Revenue, issued continuously since 1863; the newsletter of the San Francisco District, *The Cablegram*, covering the 1950s onward; the Internal Revenue Manual; the Internal Revenue Code; and various files, documents, and publications in both the San Francisco District and the National Office of the Internal Revenue Service.

Sources available through the National Archives in Washington, D.C. include documents in Record Groups 58 (Internal Revenue Service), 56 (Department of the Treasury), and 170 (Bureau of Narcotics and Dangerous Drugs).

Other sources used include the records of the U.S. District Court, Northern District of California; the California and San Francisco Blue

Books; the Hastings College Historical Collection pertaining to the William Taylor Hotel; the James D. Phelan papers at the University of California—Berkeley; local San Francisco newspapers; and the Mercantile Directory of the City of San Francisco, 1889.

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